

# ANNUAL FINANCIAL STATEMENTS 2016



OUR GREATEST PRODUCT IS OUR COMMITMENT

**SHOPRITE**   
HOLDINGS LTD

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# ANNUAL FINANCIAL STATEMENTS

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

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The annual financial statements for the year ended June 2016 have been audited by PricewaterhouseCoopers Inc., in compliance with the applicable requirements of the Companies Act, 2008. The preparation of the audited annual financial statements was supervised by Mr M Bosman, CA(SA).



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# STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

The directors are responsible for the preparation and fair presentation of the annual financial statements of the Company and Group, comprising the directors' report, the statements of financial position as at June 2016, the statements of comprehensive income, changes in equity and cash flows for the year ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

The directors are satisfied that the information contained in the annual financial statements fairly represents the financial position at year-end and the financial performance and cash flows of the Company and Group.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to

fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The directors believe that the Company and Group have adequate resources to continue trading as a going concern in the foreseeable future. The annual financial statements support the viability of the Company and the Group.

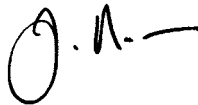
The Group's external auditors, PricewaterhouseCoopers Incorporated, audited the Company's separate and Group's consolidated annual financial statements, and their report is presented on page 6. The external auditors were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

## APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Company's separate and Group's consolidated annual financial statements of Shoprite Holdings Ltd and its subsidiaries, as identified in the first paragraph, were approved by the board of directors on 22 August 2016 and signed on its behalf by:



**CH Wiese**  
Chairman



**JW Basson**  
Chief Executive Officer

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## CERTIFICATE OF THE COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act no 71 of 2008 (as amended) I, PG du Preez, in my capacity as Company Secretary, confirm that for the year ended June 2016, the Company has lodged with the Companies and Intellectual Property Commission, all such returns as are required of a public company in terms of the Companies Act and that all such returns and notices are true, correct and up to date.



**PG du Preez**  
Company Secretary

22 August 2016



## 2 DIRECTORS' REPORT

Shoprite Holdings Ltd and its Subsidiaries

### NATURE OF BUSINESS

Shoprite Holdings Limited ("Shoprite Holdings") is an investment holding company listed on the Johannesburg Stock Exchange Limited ("JSE") in the "food retailers & wholesalers" sector. Secondary listings are also maintained on the Namibian and Zambian Stock Exchanges.

### SHOPRITE HOLDINGS COMPRISES OF THE FOLLOWING MAIN SUBSIDIARIES:

#### SHOPRITE CHECKERS (PTY) LTD

**Supermarkets:** Serves a broad customer base through our Shoprite, Shoprite Hyper, Checkers, Checkers Hyper and Usave store formats.

**Supply Chain Management:** Supplies the Group's outlets in South Africa and 14 Non-RSA countries. The Group prides itself in running a state-of-the-art distribution operation.

**Fast Foods:** The Hungry Lion chain now boasts modern, well-designed stores with a focus on fried chicken and operates outlets within South Africa, Botswana, Zambia, Lesotho, Swaziland, Namibia and Angola.

**Franchise:** The OK Franchise Division's stores offer a wide range of perishable and non-perishable food items through supermarket/convenience outlets under the OK Foods, OK Grocer, OK Minimark, OK Value, OK Express, Friendly Grocer and 7-Eleven brands. Wholesale franchise partners trade under the Megasave brand and the add-on retail liquor outlets under the OK Liquor and Friendly Liquormarket brands.

**Freshmark:** Freshmark is the Group's fruit and vegetable procurement and distribution arm and supplies fresh produce to the Group's retail outlets.

**Liquor Stores:** Trading under the Shoprite LiquorShop and Checkers LiquorShop brands respectively, the liquor shops have extended the Group's offering by providing a selection of wines, beers and a wide range of premium spirits to its customers.

**Meat Markets:** The Group's customers are served through in-store butcheries that employ qualified butchers and technicians.

**Money Markets:** The Money Markets offer a comprehensive range of financial services and products to the Group's customers through dedicated in-store service counters.

**Furniture:** The Furniture division offers furniture, electrical appliances and home entertainment products to customers for cash or credit through its OK Furniture, OK Power Express, OK Dreams and House & Home outlets in South Africa, Botswana, Namibia, Swaziland, Lesotho, Zambia, Mozambique and Angola.

**Pharmacies and wholesale distribution:** MediRite's in-store pharmacies offer consumers an easy access to affordable healthcare and healthcare professionals. These in-store dispensaries currently operate throughout South Africa and also in Angola and Swaziland. The Group's pharmaceutical wholesaler, Transpharm, sells and distributes pharmaceutical products and surgical equipment to hospitals and clinics, dispensing doctors, veterinary surgeons and private and corporate pharmacies.

**Properties:** This division is tasked with the responsibility to expand the Group's supermarket portfolio through the identification and leasing of new supermarket premises or developing new shopping centres to accommodate one of the supermarket formats. New retail developments and the redevelopment of existing properties are supervised through every stage of the planning-, design- and construction process.

#### SHOPRITE INVESTMENTS LTD

As a wholly owned subsidiary of Shoprite Holdings, Shoprite Investments conducts the Group's treasury function and financing of credit sales to third parties.

#### COMPUTICKET (PTY) LTD

As a premier ticketing solution provider and one of the most recognised brand names, Computicket offers theatre, concert, festival, sport and cinema tickets along with bus tickets and gift vouchers through a network of outlets located across South Africa, Botswana, Mozambique, Namibia and Zambia, a call centre as well as the Computicket website. Computicket Travel also offers a variety of travel packages.

#### SHOPRITE INTERNATIONAL LTD

Incorporated in the Republic of Mauritius, Shoprite International is the holding company for the majority of the Group's non-South African retail and property investments.

#### SHOPRITE INSURANCE COMPANY LTD

Provides first and third party short-term insurance to the Group and its customers.

#### OTHER GROUP SUBSIDIARIES

The interests of Shoprite Holdings in other subsidiaries are set out on page 70 of the annual financial statements.

### FINANCIAL REVIEW

The Group's diluted headline earnings per share amounts to 899.7 cents for the year (2015: 769.1 cents). Details of the profit of Shoprite Holdings and its subsidiaries are contained in the statement of comprehensive income on page 9 with reference to the operating segment information on page 23. The financial position of Shoprite Holdings and its subsidiaries are recorded in the statement of financial position on page 8. Further details are furnished in the notes to the annual financial statements on page 12 to 69. The Group's net asset value per share as at 3 July 2016 was 3 991 cents (2015: 3 571 cents).

### DISTRIBUTION TO SHAREHOLDERS

#### ORDINARY DIVIDENDS

An interim cash dividend (no. 134) of 156 cents per share was paid on 22 March 2016. A final dividend (no. 135) of 296 cents per share, is payable on 12 September 2016, bringing the total dividend for the year to 452 cents (2015: 386 cents) per ordinary share.

#### SHARE CAPITAL

The authorised share capital of Shoprite Holdings remained unchanged at 650 000 000 (six hundred and fifty million) ordinary shares of 113.4 cents (one hundred and thirteen point four cents) each.

On 19 August 2016 Shoprite Holdings issued 1 571 555 (one million five hundred and seventy one thousand five hundred and fifty five) ordinary shares in respect of conversion notices received from the holders of 26 550 Shoprite Investments convertible bonds. Accordingly, the issued share capital increased from 572 871 960 (five hundred and seventy two million eight hundred and seventy one thousand nine hundred and sixty) to 574 443 515 (five hundred and seventy four million four hundred and forty three thousand five hundred and fifteen) ordinary shares of 113.4 cents each.

On 22 August 2016, Shoprite Holdings issued 800 473 (eight hundred thousand four hundred and seventy three) non-convertible, non-participating, no par value deferred shares in the share capital of Shoprite Holdings to Thibault Square Financial Services (Pty) Ltd pursuant to the issue of 1 571 555 (one million five hundred and seventy one thousand five hundred and fifty five) ordinary shares as reported above. The total issued non-convertible, non-participating, no par value deferred shares therefore increased to 292 593 267 (two hundred and ninety two million five hundred and ninety three thousand two hundred and sixty seven).

On 8 December 2015, Shoprite Holdings delisted the 5%, second 5% and third 5% cumulative preference shares through schemes of arrangement at a price of R2.10 per preference share.

#### GOING CONCERN

The annual financial statements of the Group were prepared on a going concern basis.

The board has performed a formal review of the Group's results and its ability to continue trading as a going concern in the foreseeable future.

The directors of Shoprite Holdings confirm that they are satisfied that the Group has adequate resources to continue in business for the foreseeable future.



## BORROWINGS

Shoprite Holdings has unlimited borrowing powers in terms of its Memorandum of Incorporation (MOI).

The Group's overall level of debt increased from R4.872 billion to R5.124 billion during the financial year under review.

## SPECIAL RESOLUTIONS

At the annual general meeting of Shoprite Holdings held on 19 October 2015, shareholders approved the following special resolutions:

**Special resolution number 1:** Remuneration payable to non-executive directors;

**Special resolution number 2:** Financial assistance to subsidiaries, related and inter-related entities;

**Special resolution number 3:** Financial assistance for subscription of securities;

**Special resolution number 4:** General approval to repurchase shares;

**Special resolution number 5:** Approval of scheme of arrangement relating to Shoprite Holdings 5% cumulative preference shares in terms of section 115(2) of the Companies Act;

**Special resolution number 6:** Approval of scheme of arrangement relating to Shoprite Holdings second 5% cumulative preference shares in terms of section 115(2) of the Companies Act; and

**Special resolution number 7:** Approval of scheme of arrangement relating to Shoprite Holdings third 5% cumulative preference shares in terms of section 115(2) of the Companies Act.

During the reporting period the following special resolutions were passed by main Group subsidiaries:

### SHOPRITE CHECKERS (PTY) LTD

**Special resolution number 1:** Financial assistance to subsidiaries, related and inter-related entities.

### SHOPRITE INVESTMENTS LTD

**Special resolution number 1:** Financial assistance to subsidiaries, related and inter-related entities.

## DIRECTORS AND SECRETARY

The directors' names and details are furnished on pages 8 and 9 and the company secretary's name, business and postal address on page 74 of the Integrated Report.

In terms of the Memorandum of Incorporation of Shoprite Holdings ("the MOI"), no less than one third of the non-executive directors shall retire by rotation at each annual general meeting.

Dr ATM Mokgokong, Messrs JF Basson, JJ Fouché and JA Rock retire as directors, in terms of Article 33.5.1 of the MOI of the Company, at the annual general meeting. All these directors have offered themselves for re-election as directors of Shoprite Holdings.

The Board supports the re-election of these directors.

## DIRECTORS' AND ALTERNATE DIRECTORS' INTERESTS IN ORDINARY SHARES

### NON-EXECUTIVE DIRECTORS

	DIRECT BENEFICIAL	INDIRECT BENEFICIAL	TOTAL 2016	TOTAL 2015
CH Wiese	—	91 252 531	91 252 531	90 212 531
JJ Fouché	472 171	—	472 171	472 171
JF Basson	—	1 000	1 000	1 000
EC Kieswetter	6 304	—	6 304	4 304
JA Louw	—	50 000	50 000	50 000
ATM Mokgokong	—	—	—	—
JA Rock	—	—	—	—
JD Wiese	—	14 074	14 074	14 074

## EXECUTIVE DIRECTORS

	DIRECT BENEFICIAL	INDIRECT BENEFICIAL	TOTAL 2016	TOTAL 2015
JW Basson	—	9 104 122	9 104 122	8 884 122
M Bosman	115 000	60 000	175 000	175 000
CG Goosen	3 000	1 114 202	1 117 202	1 177 202
B Harisunker	407 379	—	407 379	407 379
AE Karp	225 269	—	225 269	225 272
EL Nel	—	148 727	148 727	148 727
BR Weyers	284 594	—	284 594	404 594
JAL Basson	40 000	89 201	129 201	129 201
PC Engelbrecht	210 000	201 039	411 039	411 039

There were no changes in the shareholding of directors in ordinary shares between financial year-end and the date of this report.

## NON-EXECUTIVE DIRECTOR'S INTEREST IN NON-CONVERTIBLE, NON-PARTICIPATING, NO PAR VALUE DEFERRED SHARES

	TOTAL 2016	TOTAL 2015
CH Wiese	291 792 794	291 792 794

## GOVERNANCE

Statements of the Board's application of the codes of good corporate governance are set out in the corporate governance report on pages 30 to 33 of the Integrated Report.

## BOARD COMMITTEES

The reports of the various board committees are included in the corporate governance section of the Integrated Report and on pages 4 and 5.

## AUDITORS

PricewaterhouseCoopers Incorporated will continue in office in accordance with Section 90(1) of the Companies Act.

## EVENTS AFTER THE REPORTING DATE

Other than the facts in the annual financial statements, there have been no material changes in the affairs or financial position of the Group and its subsidiaries from 3 July 2016 to the date of this report.

## HOLDING COMPANY

Shoprite Holdings has no holding company. An analysis of the main shareholders appears on page 71 of the annual financial statements.

## LITIGATION STATEMENT

Save for the referral to the National Consumer Tribunal as stated in note 35.3 of the annual financial statements, the directors are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous twelve (12) months, a material effect on the Group's financial position.





## 4 AUDIT AND RISK COMMITTEE REPORT

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

### INTRODUCTION

The Audit and Risk Committee (“the Audit Committee”) is established as an independent statutory committee in terms of section 94(2) of the Companies Act 71 of 2008, as amended (“the Companies Act”) and oversees audit and risk committee matters for all of the South African subsidiaries of Shoprite Holdings, as permitted by section 94(2)(a) of the Companies Act.

The main purpose of the Audit Committee is to assist the Board in monitoring the integrity of financial statements and overseeing the Integrated Report. It is also responsible to oversee the effectiveness of the Group’s internal financial controls as well as the internal and external audit functions. The Companies Act furthermore requires the Audit Committee to perform specific duties.

The Audit Committee’s terms of reference is formalised in a charter which is reviewed annually.

During the period under review, the Audit Committee conducted its affairs in accordance with the charter and has discharged its responsibilities as required by the charter, the Companies Act and the material requirements of King III.

### AUDIT COMMITTEE MEMBERS, MEETING ATTENDANCE AND ASSESSMENT

The Audit Committee consists of four (4) independent non-executive directors elected by the shareholders of Shoprite Holdings on recommendation by the Board and is chaired by Mr JF Basson.

Audit Committee meetings are held at least four (4) times a year as required by the charter. For the period under review, the Committee met five (5) times. A special Audit Committee meeting was held on 19 August 2016 to approve the 2015/16 annual financial statements of the Company.

The attendance of the Committee members is recorded below:

	30.10.2015	19.02.2016	09.05.2016	15.08.2016	19.08.2016 (SPECIAL)
<b>NON-EXECUTIVE DIRECTORS</b>					
JF BASSON	●	●	●	●	●
JA LOUW	●	●	○	●	●
JJ FOUCHÉ	●	●	●	●	●
JA ROCK	●	●	●	●	●

The financial director, internal and external auditors attended the Audit Committee meetings by invitation. Other members of management attended as required.

The Audit Committee agendas provide for meetings between the members and internal and external auditors.

### AUDIT COMMITTEE EVALUATION

As part of the annual evaluation, the performance of the Audit Committee and its members were assessed and found to be satisfactory. In addition, members were assessed in terms of the independence requirements of King III and the Companies Act. All members of the Audit Committee continue to meet the independence requirements.

### ROLES AND RESPONSIBILITIES

During the period under review, the Audit Committee fulfilled the statutory duties as required by the Companies Act and recommended in King III, as well as various additional responsibilities assigned to it by the Board.

### EXTERNAL AUDITOR APPOINTMENT AND INDEPENDENCE

The Audit Committee evaluates the performance of the external auditor during its term of appointment against specified criteria that include delivering value to shareholders and the Group, and also assesses the effectiveness of the external audit process by:

- Considering the external audit plan, in particular to get assurance that it addresses changes in circumstances from the prior year;
- Reviewing the terms of engagement of the external auditor;
- Following the completion of the audit;

- Meeting with the audit partners; and
- Overseeing (and approving where relevant) non-audit services.

The Audit Committee annually assesses the independence of the external auditor, PricewaterhouseCoopers (PwC). At the Committee’s meeting on 15 August 2016, PwC were required to confirm that they:

- are not precluded from re-appointment due to any impediment as listed in section 90(2)(b) of the Companies Act;
- are in compliance with section 91(5) of the Companies Act, by comparison with the membership of the firm at the time of its re-appointment in 2015, more than one half of the members remain in 2016; and
- remain independent as required by section 94(7) of the Companies Act and the relevant provision in the JSE Listings Requirements.

In consultation with the Group’s executive management, the Audit Committee agreed to the terms of the PwC engagement letter, audit plan and budgeted audit fees in respect of the 2016 financial year. The total fee paid to PwC during the reporting period amounted to R39.9 million of which R8.8 million was in respect of non-assurance services.

A formal framework governs the process through which PwC renders non-assurance services to ensure that the audit independence is not compromised. The Audit Committee approved the terms of a master service agreement for the provision of such services by PwC as well as the nature and extent of non-assurance services that may be provided in terms of a pre-approval policy. Non-assurance services rendered by PwC during the period under review comprised tax advisory and compliance services and other advisory services.

Based on the above assessment, the Committee re-nominates PwC as independent external auditor for the 2016/17 financial year. Having served as the designated audit partner for the past five (5) years, Mr A Wentzel retires by rotation as the designated partner with effect from 31 October 2016 as required by section 92(1) of the Companies Act. Mr MC Hamman will perform the functions of the designated external audit partner, until the 2017 annual general meeting of Shoprite Holdings. Shareholders are therefore requested to re-elect PwC as independent external auditor for the 2016/17 financial year at the annual general meeting on 31 October 2016 with Mr Hamman as the designated audit partner.

### FINANCIAL STATEMENTS AND ACCOUNTING PRACTICES

During the reporting period, the Audit Committee reviewed the interim and annual financial reports of the Group and recommended the acceptance and approval thereof to the Board.

During the review of the financial reports the Audit Committee considered:

- the accounting policies and financial statements, in order to ensure compliance with International Financial Reporting Standards and relevant requirements of the Companies Act and the JSE Listings Requirements; and
- the audit report issued by the external auditors.

### INTERNAL CONTROLS

The Group’s systems of internal control are designed and implemented to support the identification, evaluation and management of risks affecting the Group. These include controls in respect of the financial reporting process but extend across all areas of operations.

During the reporting period an internal review was performed to assess the effectiveness of the Group’s system of internal controls and risk management procedures. This assessment formed the basis for the Audit Committee’s recommendation in this regard to the Board.

Management, internal and external auditors have agreed on a combined assurance model to enable these parties to report to the Audit Committee on the efficiency of the Group’s internal financial controls. Assurance on compliance with systems of internal control and on their effectiveness is obtained through regular management reviews, assurance, testing of certain aspects of the internal financial control systems by the external auditors during the course of their statutory audit and regular reports to the Audit Committee by the external and internal auditors.



During the period under review, the Audit Committee reviewed the reports on the design, implementation and effectiveness of the Group's systems of internal, financial and risk controls. No material breakdowns in the internal and financial controls came to the attention of management of the Group that required reporting.

### INTEGRATED AND SUSTAINABILITY REPORTING

In fulfilling its oversight responsibilities, the Audit Committee has reviewed the sustainability information that forms part of the Group's Integrated Report and has assessed its consistency with operational and other information known to the Audit Committee members, as well as its consistency with the Group's 2016 annual financial statements.

The Audit Committee is satisfied that the above is consistent with the Group's financial results. As such the Audit Committee has recommended that the Group's Integrated Report be approved by the Board.

### GOING CONCERN

The Audit Committee has reviewed a documented assessment, including key assumptions, prepared by management on the going concern status of the Group. The Board's statement on the going concern status of the Group, as supported by the Audit Committee, is contained in the directors' report.

### GOVERNANCE OF RISK

Whilst the Board is ultimately responsible for the maintenance of an effective risk management process, the Committee assisted the Board in assessing the adequacy of the risk management process.

The risk forum (a management committee consisting of senior managers from all business units and chaired by the financial director) met four (4) times during the reporting period. During these meetings significant risks affecting the Group were considered and discussed to ensure that executive management is aware of the risks affecting the Group and their business units. Minutes of these meetings are submitted to the Audit Committee for consideration.

Each divisional unit within the Group has their own enterprise wide risk management (EWRM) plan which is updated regularly to ensure that risks affecting business units are current and that the necessary controls to mitigate these risks are in place.

The Group also has a top 20 risk document which details the material risks of the Group as well as the necessary controls to mitigate these risks. All business units are required to report on the risk control measures that they have implemented to address specific risks affecting their respective business units.

During the 2015/16 financial year the Group initiated a process to review the Group's formal Enterprise Risk Management (ERM) Policy and Framework that aligns risk management to the strategic objectives of the Group. The ERM policy and framework articulates the principles and requirements for effective risk management as part of the Group's overall corporate governance. Periodic risk evaluations are performed in all business units across the Group and the most significant risks, the Top 20 risks, with key mitigating controls, are reported to the Audit and Risk Committee on a periodic basis.

A combined assurance model has been adopted by the Group as the basis for risk management governance and oversight. This lines-of-defense based model highlights the different role players' responsibilities for internal controls and risk management and summarises accountability for the oversight of risks and independent assurance.

The Group recognises the significant threat that cybersecurity presents and how successful cybersecurity attacks can cause significant damage to a company's business and reputation. As a result, a special project with outside expert assistance was recently launched to mitigate this specific business risk.

The Audit Committee is satisfied that, during the course of the 2015/16 financial year, executive management was aware of and addressed the material risks affecting their respective business units and the Group as a whole.

### INTERNAL AUDIT

The Audit Committee is responsible to ensure that the Group's internal audit function is independent and has the necessary resources, standing and authority within the Group to enable it to discharge its responsibilities effectively. Furthermore, it oversees cooperation between the internal and external auditors, and serves as a link between the Board and these functions.

Internal audit activities, all of which are risk based, are performed by a team of appropriately qualified and experienced employees who are led by the internal audit manager. The internal audit department is responsible for reviewing and providing assurance on the adequacy of the internal control environment across all of the significant areas of the Group's operations. Internal audit's activities are measured against the Group's approved internal audit plan and the internal audit manager tables a progress report in this regard to the Audit Committee at each meeting.

The internal audit manager has direct access to the Audit Committee, primarily through the Chairman.

During the reporting period the Audit Committee:

- reviewed and agreed the internal audit charter and annual audit plan and evaluated the independence, effectiveness, performance of the internal audit function and compliance with its charter;
- considered the reports of internal audit on the Group's systems of internal control;
- reviewed significant issues raised by the internal audit process and the adequacy of corrective actions taken in response to findings; and
- formed an opinion that adequate, objective internal audit standards and procedures exist within the Group and that the Group's internal audit department has complied with the required legal, regulatory and other responsibilities as stipulated in their charter during the period under review.

### GOVERNANCE OF INFORMATION TECHNOLOGY (IT)

In executing the Board's mandate for IT governance, the Audit Committee successfully built on the foundations set in previous years under the direction of the General Manager IT.

During the financial year, the Audit Committee reviewed the implementation of all relevant IT governance mandates, policies, processes and control frameworks. Furthermore, the Audit Committee also provides assurance to the Board on all IT related matters, including significant IT investments, by engaging both internal and external assurance providers. This assurance forms part of the Group's combined assurance framework.

The Group's IT governance framework is formalised in an IT governance charter and policies were formulated and implemented. The charter and policies outline the decision making rights and accountability framework for IT governance within the Group. During the reporting period, the Audit Committee reviewed and agreed to certain amendments to the IT governance charter.

### EVALUATION OF THE EXPERTISE AND EXPERIENCE OF FINANCIAL DIRECTOR AND FINANCE FUNCTION

As required by JSE Listing Requirement 3.84(h), the Audit Committee, through a formal process, has satisfied itself that the financial director, Mr M Bosman, has the appropriate expertise and experience to act in this capacity. Mr Bosman is a chartered accountant and was appointed as financial director of the Group in 2014.

The Audit Committee also considered a written report that records the manpower, roles and responsibilities, qualifications and experience of senior members of the Group finance department. Based on this assessment, the Audit Committee is satisfied that the Group finance function has the required expertise and adequacy of resources to perform the Group financial function.

### JF BASSON

Chairman

22 August 2016



## 6 CURRENCY OF THE ANNUAL FINANCIAL STATEMENTS

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

The annual financial statements are expressed in South African rand. The approximate Rand cost of a unit of the following currencies at year-end was:

	2016	2015		2016	2015		2016	2015
US dollar	14.775	12.126	Botswana pula	1.383	1.236	India rupee	0.219	0.191
Pound sterling	19.685	19.091	Uganda shilling	0.004	0.004	Ghana cedi	3.731	2.740
Euro	16.393	13.581	Malawi kwacha	0.021	0.027	Madagascar ariary	0.005	0.004
Zambia kwacha	1.514	1.641	Mauritius rupee	0.415	0.344	Nigeria naira	0.052	0.061
Mozambique metical	0.221	0.282	Angola kwanza	0.089	0.100	DRC franc	0.016	0.013

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SHOPRITE HOLDINGS LIMITED

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the consolidated and separate financial statements of Shoprite Holdings Limited set out on pages 8 to 70, which comprise the statements of financial position as at 3 July 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the period then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Shoprite Holdings Limited as at 3 July 2016, and its consolidated and separate financial performance and its consolidated and separate cash flows for the period then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the consolidated and separate financial statements for the period ended 3 July 2016, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Shoprite Holdings Limited for 34 years.



### PRICEWATERHOUSECOOPERS INC.

Director: Anton Wentzel  
Registered Auditor  
Cape Town

22 August 2016





# VALUE-ADDED STATEMENT

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

	53 weeks June 2016 Rm		52 weeks June 2015 Rm	
		%		%
Sale of merchandise	130 028		113 694	
Investment income	285		315	
Cost of goods and services	(110 332)		(96 411)	
<b>VALUE ADDED</b>	<b>19 981</b>	<b>100.0</b>	<b>17 598</b>	<b>100.0</b>

Employed as follows:

### EMPLOYEES

Salaries, wages and service benefits	10 356	51.8	9 249	52.6
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### PROVIDERS OF CAPITAL

Finance costs to providers of funds	498	2.5	415	2.4
Dividends to providers of share capital	2 144	10.7	1 940	11.0

### INCOME TAX

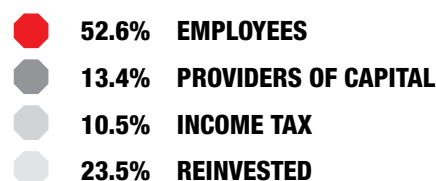
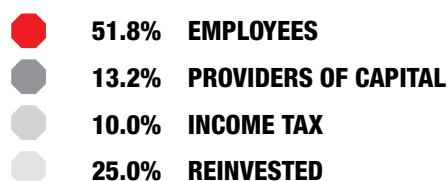
Income tax on profits made	1 998	10.0	1 848	10.5
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### REINVESTED

Reinvested in the Group to finance future expansion and growth	4 985	25.0	4 146	23.5
Depreciation and amortisation	2 288	11.5	1 962	11.1
Retained earnings	2 697	13.5	2 184	12.4

### EMPLOYMENT OF VALUE ADDED

	19 981	100.0	17 598	100.0
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# STATEMENT OF COMPREHENSIVE INCOME

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

9

COMPANY			GROUP	
52 weeks	53 weeks		53 weeks	52 weeks
June	June		June	June
2015	2016		2016	2015
Rm	Rm	Notes	Rm	Rm
—	—	Sale of merchandise	130 028	113 694
—	—	Cost of sales	(102 792)	(90 180)
—	—	GROSS PROFIT	27 236	23 514
2 481	2 612	Other operating income	3 711	3 428
—	—	Depreciation and amortisation	(2 025)	(1 733)
—	—	Operating leases	(3 486)	(2 990)
—	—	Employee benefits	(9 499)	(8 507)
(14)	(16)	Other operating expenses	(8 659)	(7 384)
2 467	2 596	TRADING PROFIT	7 278	6 328
—	—	Exchange rate losses	(46)	(132)
—	—	Items of a capital nature	(11)	(13)
2 467	2 596	OPERATING PROFIT	7 221	6 183
57	2	Interest received	174	216
—	—	Finance costs	(498)	(415)
—	—	Share of loss of associates and joint ventures	(52)	(2)
2 524	2 598	PROFIT BEFORE INCOME TAX	6 845	5 982
(24)	(13)	Income tax expense	(1 998)	(1 848)
2 500	2 585	PROFIT FOR THE YEAR	4 847	4 134
—	—	OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX	(579)	(387)
		Items that will not be reclassified to profit or loss		
—	—	Re-measurements of post-employment medical benefit obligations	1	1
		Items that may subsequently be reclassified to profit or loss		
—	—	Foreign currency translation differences	(680)	(413)
—	—	Share of foreign currency translation differences of associates and joint ventures	76	25
		For the period	122	25
		Reclassified to profit for the period	(46)	—
—	—	Gains on effective cash flow hedge	24	—
2 500	2 585	TOTAL COMPREHENSIVE INCOME FOR THE YEAR	4 268	3 747
		PROFIT ATTRIBUTABLE TO:		
2 500	2 585	Owners of the parent	4 841	4 124
—	—	Non-controlling interest	6	10
2 500	2 585		4 847	4 134
		TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
2 500	2 585	Owners of the parent	4 262	3 737
—	—	Non-controlling interest	6	10
2 500	2 585		4 268	3 747
		Basic earnings per share (cents)	31	771.2
		Diluted earnings per share (cents)	31	767.4
		Basic headline earnings per share (cents)	31	772.9
		Diluted headline earnings per share (cents)	31	769.1

FINANCIAL STATEMENTS



## STATEMENT OF CHANGES IN EQUITY

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

Rm	Notes	Total equity	Non-controlling interest	Attributable to owners of the parent					
				Total	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings
<b>GROUP</b>									
BALANCE AT JUNE 2014		17 283	66	17 217	650	4 029	(680)	1 236	11 982
Total comprehensive income		3 747	10	3 737	—	—	—	(388)	4 125
Profit for the year		4 134	10	4 124					4 124
Recognised in other comprehensive income									
Re-measurements of post-employment medical benefit obligations		1		1					1
Foreign currency translation differences	16	(388)		(388)				(388)	
Share-based payments – value of employee services	16	131		131				131	
Modification of cash bonus arrangement transferred from provisions	18	26		26				26	
Purchase of treasury shares	14	(79)		(79)			(79)		
Dividends distributed to shareholders		(1 948)	(8)	(1 940)					(1 940)
BALANCE AT JUNE 2015		19 160	68	19 092	650	4 029	(759)	1 005	14 167
Total comprehensive income		4 268	6	4 262	—	—	—	(580)	4 842
Profit for the year		4 847	6	4 841					4 841
Recognised in other comprehensive income									
Re-measurements of post-employment medical benefit obligations		1		1					1
Foreign currency translation differences	16	(604)		(604)				(604)	
Gains on effective cash flow hedge	16	33		33				33	
Income tax effect of gains on effective cash flow hedge	16	(9)		(9)				(9)	
Share-based payments – value of employee services	16	140		140				140	
Modification of cash bonus arrangement transferred from provisions	18	7		7				7	
Purchase of treasury shares	14	(28)		(28)			(28)		
Treasury shares disposed		9		9			9		
Realisation of share-based payment reserve	16	—		—			18	(18)	
Dividends distributed to shareholders		(2 153)	(9)	(2 144)					(2 144)
BALANCE AT JUNE 2016		21 403	65	21 338	650	4 029	(760)	554	16 865
<b>COMPANY</b>									
BALANCE AT JUNE 2014		7 185	—	7 185	650	4 029	—	2	2 504
Total comprehensive income									
Profit for the year		2 500		2 500					2 500
Dividends distributed to shareholders		(2 068)		(2 068)					(2 068)
BALANCE AT JUNE 2015		7 617	—	7 617	650	4 029	—	2	2 936
Total comprehensive income									
Profit for the year		2 585		2 585					2 585
Dividends distributed to shareholders		(2 286)		(2 286)					(2 286)
BALANCE AT JUNE 2016		7 916	—	7 916	650	4 029	—	2	3 235



# STATEMENT OF CASH FLOWS

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

COMPANY			GROUP	
June 2015	June 2016		June 2015	June 2016
Rm	Rm	Notes	Rm	Rm
424	307	CASH FLOWS FROM OPERATING ACTIVITIES	1 443	3 756
2 467	2 596	Operating profit	7 221	6 183
(2 472)	(2 601)	Less: investment income	(111)	(99)
—	—	Non-cash items	2 681	2 912
—	—	Payments for cash settlement of share appreciation rights	—	(3)
18	1	Changes in working capital	(3 331)	(1 408)
13	(4)	Cash generated from/(utilised by) operations	6 460	7 585
60	2	Interest received	258	294
—	—	Interest paid	(426)	(377)
2 469	2 601	Dividends received	27	21
(2 068)	(2 285)	Dividends paid	(2 152)	(1 947)
(50)	(7)	Income tax paid	(2 724)	(1 820)
(2 295)	(150)	CASH FLOWS UTILISED BY INVESTING ACTIVITIES	(4 733)	(4 670)
—	—	Investment in property, plant and equipment and intangible assets to expand operations	(3 304)	(3 630)
—	—	Investment in property, plant and equipment and intangible assets to maintain operations	(1 448)	(1 001)
—	—	Proceeds on disposal of property, plant and equipment and intangible assets	85	71
—	—	Proceeds on disposal of assets held for sale	—	163
—	—	Other investing activities	(263)	(264)
(8 810)	(3 128)	Amounts paid to subsidiaries	—	—
8 474	3 879	Amounts received from subsidiaries	—	—
(1 953)	(901)	Investment in subsidiaries	—	—
(6)	—	Investment in associates	—	(6)
—	—	Proceeds on disposal of investment in associate	197	—
—	—	Acquisition of operations	—	(3)
—	(2)	CASH FLOWS FROM/(UTILISED BY) FINANCING ACTIVITIES	10	(52)
—	—	Purchase of treasury shares	(28)	(79)
—	—	Proceeds from treasury shares disposed	9	—
—	(2)	Redemption of Shoprite Holdings Ltd preference share capital	(2)	—
—	—	Increase in borrowing from Standard Chartered Bank (Mauritius) Ltd	216	—
—	—	Repayment of borrowing from Standard Bank de Angola, S.A.	(201)	—
—	—	Increase in borrowing from First National Bank of Namibia Ltd	8	14
—	—	Increase in other borrowings	8	13
(1 871)	155	NET MOVEMENT IN CASH AND CASH EQUIVALENTS	(3 280)	(966)
1 877	6	Cash and cash equivalents at the beginning of the year	7 058	8 100
—	—	Effect of exchange rate movements on cash and cash equivalents	41	(76)
6	161	CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3 819	7 058
6	161	Consisting of:		
—	—	Cash and cash equivalents	6 784	7 061
—	—	Bank overdrafts	(2 965)	(3)
6	161		3 819	7 058





**1. ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below and are consistent with those applied in the previous year, unless otherwise stated.

The Group's consolidated and Company's separate financial statements were authorised for issue by the board of directors on 22 August 2016. Other than the facts in the Integrated Report, there have been no material changes in the affairs or financial position of the Group and its subsidiaries from 3 July 2016 that have an impact on the financial results or disclosures in these annual financial statements.

**1.1 BASIS OF PREPARATION**

The Group reports on the retail calendar of trading weeks which treats each financial year as an exact 52 week period, incorporating trade from Monday to Sunday each week. This treatment effectively results in the loss of a day (or two in a leap year) per calendar year. These days are brought to account approximately every six years by including a 53<sup>rd</sup> week. Accordingly the results for the financial year under review are for a 53 week period, ended 3 July 2016, compared to 52 weeks in the previous financial year.

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and the South African Companies Act (Act No 71 of 2008) as amended. The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain financial instruments to fair value. The financial statements are prepared on a going concern basis.

**1.1.1 USE OF JUDGMENTS, ASSUMPTIONS AND ESTIMATES****1.1.1.1 JUDGMENTS**

The preparation of the financial statements in accordance with IFRS requires management to exercise its judgment in the process of applying the Group's accounting policies. The most significant judgments in applying the Group's accounting policies relate to the following:

- a) **Valuation of inventory:** Trading inventories are valued by use of the retail inventory method as an approximation of weighted average cost. Significant judgment is required in the application thereof, specifically as far as it relates to gross margin percentages, accrual rates for rebates and settlement discounts and shrinkage rates applied.
- b) **Segment reporting:** IFRS 8 requires an entity to identify its operating segments. Once an entity has done that, it is required to determine its reportable segments. Reportable segments may comprise single operating segments or an aggregation of operating segments. Aggregation of one or more operating segments into a single reportable segment is permitted where certain conditions are met; the principle conditions being that the operating segments should have similar economic characteristics and the operating segments are similar in respect of the products and services offered, nature of production processes, type or class of customers, distribution methods, and regulatory environment.

The Group's management has assessed the above mentioned aggregation criteria in respect of its identified retail operating segments and believe that it has been satisfied; therefore it has elected to aggregate these segments as allowed by IFRS 8.

**1.1.1.2 ASSUMPTIONS AND ESTIMATES**

The preparation of the financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions. The most significant assumptions and estimates used in applying the Group's accounting policies relate to the following:

- a) **Impairment of assets:** The Group performs a review of loss-making stores and considers the need for the impairment of assets under these circumstances. This determination requires significant judgment. The Group evaluates amongst other things, the duration and extent of the losses, the near-term business outlook for the store, and the possible redeployment of the assets between stores. Refer to notes 3, 9 and 27.
- b) **Useful lives of assets:** In determining the depreciation and amortisation charge for property, plant and equipment and intangible assets, management applies judgment in estimating the useful lives and residual values of these different asset classes. Refer to notes 3, 9 and 22.
- c) **Income taxes:** The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide accrual for income taxes. The Group recognises liabilities for anticipated uncertain income tax positions based on estimates of potential additional taxes due. With regards to deferred income tax assets for unutilised income tax losses, judgment is also required to whether sufficient future taxable income will be available against which these losses can be utilised. Refer to notes 1.26 and 8.
- d) **Allowances for doubtful debts:** Trade receivables include instalment sale debtors and franchise debtors for which allowances for impairment are made in accordance with the accounting policy in note 1.14. These calculations involve the discounting of projected future cash flows and require the use of estimates. Details regarding the allowances are set out in note 12.
- e) **Employee benefit accruals and provisions:** Various assumptions are applied in determining the valuations of post-employment medical benefits, share based payment accruals and long term employee benefits as set out in notes 1.19, 1.21, 15, 18 and 38.

Estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities in a subsequent year relate to the following: income taxes; allowances for doubtful debts and employee benefit allowances.

All estimates and underlying assumptions are based on historical experience and various other factors that management believes are reasonable under the circumstances. The results of these estimates form the basis of judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any affected future periods.



## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.1 BASIS OF PREPARATION (CONTINUED)

#### 1.1.2 USE OF ADJUSTED MEASURES

The measures listed below are presented as management believes it to be relevant to the understanding of the Group's financial performance. These measures are used for internal performance analysis and provide additional useful information on underlying trends to equity holders. These measures are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other entities. It is not intended to be a substitute for, or superior to, measures as required by IFRS.

- a) Trading profit on the face of the statement of comprehensive income, being the Group's operating results excluding foreign exchange rate differences and income or expenditure of a capital nature.
- b) Income or expenditure of a capital nature on the face of the statement of comprehensive income, being all re-measurements excluded from the calculation of headline earnings per share in accordance with the guidance contained in SAICA Circular 2/2015: Headline Earnings. The principal items that will be included under this measure are: gains and losses on disposal and scrapping of property, plant and equipment, intangible assets and assets held for sale; impairments or reversal of impairments; any non-trading items such as gains and losses on disposal of investments, operations and subsidiaries.
- c) Interest received on the face of the statement of comprehensive income, being only interest received on call and operating bank account balances.

### 1.2 CONSOLIDATION

#### 1.2.1 SUBSIDIARIES

Subsidiaries are entities (including structured entities) which are, directly or indirectly, controlled by the Group. Control is established where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The nature and effect of existing rights that give the Group the current ability to direct the relevant activities of the entity are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The acquisition method is used to account for business combinations. The consideration transferred is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of acquisition. Identifiable assets acquired as well as liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Acquisition-related costs are expensed as incurred. The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the consideration transferred is less than the Group's share of the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

All intergroup transactions, balances and unrealised gains and losses on transactions between entities of the Group have been eliminated. When necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

#### 1.2.2 JOINT ARRANGEMENTS

Joint arrangements are those arrangements over which the Group exercises joint control in terms of a contractual agreement. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the rights and obligations of the parties to the arrangement. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The Group's investments in joint ventures are accounted for using the equity method and are initially recognised at cost.

The Group's share of post-acquisition profit or loss and its share of post-acquisition movements in other comprehensive income are recognised in the statement of comprehensive income and in other comprehensive income respectively, with a corresponding adjustment to the carrying amount of the investment, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses in a joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture. When necessary, accounting policies applied by joint ventures have been changed to ensure consistency with the policies adopted by the Group.

#### 1.2.3 ASSOCIATES

Associates are those entities over which the Group exercises significant influence but not control. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting rights of another entity. The Group's investments in associates are accounted for using the equity method and are initially recognised at cost. Investments in associates include goodwill identified on acquisition, net of any accumulated impairment losses.

The Group's share of post-acquisition profit or loss and its share of post-acquisition movements in other comprehensive income are recognised in the statement of comprehensive income and in other comprehensive income respectively, with a corresponding adjustment to the carrying amount of the investment, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses in an associate equals or exceeds its investment in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When necessary, accounting policies applied by associates have been changed to ensure consistency with the policies adopted by the Group.

#### 1.2.4 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

The Group treats transactions, such as share purchases, with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.



## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.3 FOREIGN CURRENCY TRANSLATION

#### 1.3.1 FUNCTIONAL AND PRESENTATION CURRENCY

All items in the financial statements of the Group's subsidiaries, joint arrangements and associates are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Group's consolidated financial statements are presented in South African rand, which is Shoprite Holdings Ltd's functional currency and the Group's presentation currency.

#### 1.3.2 TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the average exchange rates for the relevant month. These average exchange rates approximate the spot rate at the date of the transaction. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at closing rates, are recognised in the statement of comprehensive income.

#### 1.3.3 FOREIGN OPERATIONS

The results and the financial position of all Group subsidiaries, joint arrangements and associates that have a functional currency that is different from the presentation currency of the Group are translated into the presentation currency as follows:

- a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- b) Income and expenses for each statement of comprehensive income presented are translated at the average exchange rates for the period presented; and
- c) All resulting translation differences are recognised in other comprehensive income and presented as a separate component of equity in the foreign currency translation reserve (FCTR).

On consolidation, exchange rate differences arising from the translation of the net investment in foreign operations are also taken to the FCTR. The Group's net investment in a foreign operation is equal to the equity investment plus all monetary items that are receivable from or payable to the foreign operation, for which settlement is neither planned nor likely to occur in the foreseeable future.

When a foreign operation is disposed of or sold and the Group loses control, joint control or significant influence over the foreign operation, all related exchange rate differences recognised in other comprehensive income and accumulated in equity in the FCTR are reclassified from equity to the statement of comprehensive income as part of the profit or loss on the sale of the operation. On partial disposal of a foreign subsidiary, where a change occurs in the absolute ownership percentage held by the Group and control is not lost, a proportionate share of all related exchange rate differences recognised in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. On partial disposal of a foreign joint arrangement or associate, where a change occurs in the absolute ownership percentage held by the Group and joint control or significant influence is not lost, a proportionate share of all related exchange rate differences recognised in other comprehensive income are reclassified from equity to the statement of comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets and liabilities of the foreign subsidiary and are translated at the closing rate.

### 1.4 HEDGING ACTIVITIES

The Group designates certain non-derivative financial instruments as either:

- a) Hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- b) Hedges of a net investment in a foreign operation (net investment hedges).

The Group documents, at the inception of the hedging transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the financial instruments that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

#### 1.4.1 CASH FLOW HEDGES

The effective portion of changes in the fair value of financial instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in the cash flow hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, fixed assets), the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

#### 1.4.2 NET INVESTMENT HEDGES

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the foreign currency translation reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains and losses accumulated in the foreign currency translation reserve are reclassified to profit or loss when the foreign operation is partially disposed of or sold. Refer to note 1.3.3.



## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible assets held by the Group for use in the supply of goods, rental to others or administrative purposes and are expected to be used during more than one period. All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment. The historical cost includes all expenditure that is directly attributable to the acquisition of the buildings, machinery, equipment and vehicles and is depreciated on a straight-line basis, from the date it is available for use, at rates appropriate to the various classes of assets involved, taking into account the estimated useful life and residual values of the individual items. Land is not depreciated, as it has an unlimited useful life. Improvements to leasehold properties are shown at cost and written off over the remaining period of the lease and the items' useful life.

Management determines the estimated useful lives, residual values and the related depreciation charges at acquisition and these are reviewed at each statement of financial position date. If appropriate, adjustments are made and accounted for prospectively as a change in estimate.

#### USEFUL LIVES:

Buildings	20 years
Machinery	5 to 10 years
Vehicles	5 to 10 years
Trolleys	3 years
Equipment	4 to 10 years
Computer equipment	3 to 5 years
Aircraft and its components	33 to 50 years

The cost of major refurbishments is capitalised as property, plant and equipment to the extent that it can be recovered from future use of the assets. The capitalised amounts are depreciated over the relevant write-off periods. All other repairs and maintenance are charged to the statement of comprehensive income during the period in which these are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal or scrapping of property, plant and equipment, being the difference between the net proceeds on disposal or scrapping and the carrying amount, are recognised in the statement of comprehensive income.

### 1.6 FINANCIAL INSTRUMENTS

The Group classifies its financial instruments in the following categories: loans and receivables, financial liabilities and derivatives at fair value through profit and loss. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates such designations when circumstances indicate that reclassification is permitted. The Group assesses at each statement of financial position date whether there is objective evidence that a financial instrument or a group of financial instruments is impaired.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, i.e. when the contractual obligation is discharged, cancelled, expires or when a substantial modification of the terms occur.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### 1.7 COMPOUND FINANCIAL INSTRUMENTS

Compound financial instruments issued by the Group comprise of convertible bonds that can be converted to share capital at the option of the holder and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest rate method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

### 1.8 DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivatives, being forward foreign exchange rate contracts, categorised as fair value through profit or loss, are either assets or liabilities. A classification between current and non-current is made based on the remaining contractual maturity of the foreign exchange rate contracts over the following 12 months. Purchases and settlements of derivative financial instruments are initially recognised on the trade date at fair value. Derivative financial instruments are subsequently carried at fair value. Transaction costs are expensed as they are incurred. Realised and unrealised gains and losses arising from changes in the fair value of derivative financial instruments are included in the statement of comprehensive income as other income or other expenses in the period in which they arise. The fair value of forward foreign exchange rate contracts is determined using forward exchange rates at the statement of financial position date.



**1. ACCOUNTING POLICIES (CONTINUED)****1.9 LOANS AND RECEIVABLES**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable, and purchases and sales are recognised at trade date at fair value, including transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective interest rate method. These financial assets are included under current assets unless it matures later than 12 months after statement of financial position date.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loans and receivables' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate applicable to the relevant loans and receivables. The carrying amount will be reduced and the loss recognised in the statement of comprehensive income.

**1.10 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES**

The Company's investments in the ordinary shares of its subsidiaries and associates are carried at cost less impairment losses and, if denominated in foreign currencies, are translated at historical rates. Purchases and sales of these investments are recognised on the trade date at cost, including transaction costs.

**1.11 INTANGIBLE ASSETS****1.11.1 GOODWILL**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or operation at the date of acquisition. Goodwill denominated in a foreign currency is translated at closing rates. Goodwill is tested for impairment annually and whenever there is indication of impairment. Goodwill is carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. Each of those CGUs represents the Group's investment in a trading unit or a group of trading units. Gains and losses on the disposal of an entity that has related goodwill include the carrying amount of the related goodwill. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

**1.11.2 SOFTWARE**

Software represents all costs incurred to acquire the assets and bring it into use. These costs are amortised over the estimated useful life of the relevant software, being between three and seven years, on a straight-line basis.

Costs associated with implementing or maintaining software are recognised as an expense when incurred. Costs that are directly associated with the purchase and customisation of identifiable and unique software controlled by the Group, and that will probably generate future economic benefits beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Software's useful lives are reviewed at each statement of financial position date. If appropriate, adjustments are made and accounted for prospectively as a change in estimate.

**1.11.3 TRADEMARKS**

Acquired trademarks and licences are initially shown at historical cost and trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks have a finite useful life and are subsequently measured at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives, being 16 to 20 years.

The useful lives are reviewed at each statement of financial position date. If appropriate, adjustments are made and accounted for prospectively as a change in estimate.

**1.11.4 CUSTOMER RELATIONSHIPS**

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected useful life of 10 years.

**1.12 NON-CURRENT ASSETS HELD FOR SALE**

Non-current assets and/or disposal groups are classified as assets held for sale and are stated at the lower of the carrying amount and fair value less cost to sell if their carrying amount will be recovered principally through a sale transaction rather than through continued use and this sale is considered highly probable.

**1.13 INVENTORIES**

Trading inventories are stated at the lower of cost, using the weighted average cost formula, and net realisable value. The weighted average cost formula is determined by applying the retail inventory method. The cost of merchandise is the net of: invoice price of merchandise; insurance; freight; customs duties; an appropriate allocation of distribution costs; trade discounts; rebates and settlement discounts. The retail method approximates the weighted average cost and is determined by reducing the sales value of the inventory by the appropriate gross margin percentage. The percentage used takes into account inventory that has been marked down below original selling price. An average percentage per retail department is used. Net realisable value is the estimated selling price in the ordinary course of business.





## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.14 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised at trade date at fair value. Subsequent recognition is measured at amortised cost using the effective interest method, less allowance made for impairment of these receivables. An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, discounted at the original effective interest rate. Any resulting impairment losses are included in other expenses in the statement of comprehensive income. The impairment of instalment sale receivables is done on a collective basis due to the wide-spread customer base. When a receivable is uncollectible, it is written off against the allowance for impairment for receivables. Subsequent recoveries of amounts previously written off are recognised in the statement of comprehensive income.

### 1.15 LEASES

#### 1.15.1 WHERE THE GROUP IS THE LESSEE

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Certain premises and other assets are leased. Payments made in respect of operating leases with a fixed escalation clause are charged to the statement of comprehensive income on a straight-line basis over the lease term. All other lease payments are expensed as they become due. Incentives paid to enter into a lease agreement are expensed in the statement of comprehensive income as operating lease expense over the lease term. Minimum rentals due after year-end are reflected under commitments.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense and any unamortised portion of the fixed escalation lease accrual is recognised in the statement of comprehensive income in the period in which termination takes place.

#### 1.15.2 WHERE THE GROUP IS THE LESSOR

Portions of owner-occupied properties and leased properties are leased or subleased out under operating leases. The owner-occupied properties are included in property, plant and equipment in the statement of financial position. Rental income in respect of operating leases with a fixed escalation clause is recognised on a straight-line basis over the lease term. Incentives received to enter into a lease agreement are released to the statement of comprehensive income as operating lease income over the lease term. All other rental income is recognised as it becomes due.

When an operating lease is terminated before the lease period has expired, any payment received from the lessee by way of penalty is recognised as income and any unamortised portion of the fixed escalation lease accrual is recognised in the statement of comprehensive income in the period in which termination takes place.

### 1.16 CASH AND CASH EQUIVALENTS AND BANK OVERDRAFTS

Cash and cash equivalents and bank overdrafts are carried at cost and, if denominated in foreign currencies, are translated at closing rates. Cash comprises cash on hand and cash at banks. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Bank overdrafts are disclosed separately on the face of the statement of financial position.

### 1.17 SHARE CAPITAL

Ordinary shares and non-convertible, non-participating deferred shares, including incremental costs directly attributable to the issue of new shares, are both classified as equity.

Where entities controlled by the Group purchase the Company's shares, the consideration paid, including attributable transaction costs net of income taxes, is deducted from capital and reserves attributable to owners of the parent as treasury shares until they are sold. Where such shares are subsequently sold, any consideration received is included in capital and reserves attributable to owners of the parent. Dividends received on treasury shares are eliminated on consolidation.

### 1.18 BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has the unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Preference shares, which carry non-discretionary dividend obligations, are classified as non-current liabilities at amortised cost. Amortised cost is calculated using the effective interest yield method. The dividends on these preference shares are recognised in the statement of comprehensive income as finance costs.

### 1.19 PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. The Group has discounted provisions to their present value where the effect of the time value of money is material. The notional interest charge representing the unwinding of the provision discounting is included in the statement of comprehensive income.

#### 1.19.1 ONEROUS LEASE CONTRACTS

The Group recognises a provision for onerous lease contracts when the expected benefits, including subleasing income, to be derived from non-cancellable operating lease contracts are lower than the unavoidable costs of meeting the contract obligations. The unavoidable contracted costs are applied over the remaining periods of the relevant lease agreements. The notional interest charge relating to the unwinding of the provisions discounting is included in the statement of comprehensive income as finance costs.



**1. ACCOUNTING POLICIES (CONTINUED)****1.19 PROVISIONS (CONTINUED)****1.19.2 PROVISION FOR OUTSTANDING INSURANCE CLAIMS**

The Group recognises a provision for the estimated direct cost of settling all outstanding claims at year-end. The provision for outstanding claims at year-end includes a provision for cost of claims incurred but not yet reported at year-end as well as for the cost of claims reported but not yet settled at year-end. The provision for cost of claims incurred but not yet reported (IBNR) at year-end is determined by using established claims patterns. Full provision is made for the cost of claims reported but not yet settled at year-end by using the best information available.

**1.19.3 LONG TERM EMPLOYEE BENEFITS**

Long term employee benefits are provided to employees who achieve certain predetermined milestones of service within the Group. The Group's obligation under these plans is valued by independent qualified actuaries at year-end and the corresponding liability is raised. Payments are set off against the liability. Movements in the liability, including notional interest, resulting from the valuation by the actuaries are charged against the statement of comprehensive income as employee benefits.

**1.19.4 REINSTATEMENT PROVISION**

Where it has a contractual obligation in respect of certain operating lease agreements, the Group provides for expected reinstatement costs to be incurred at the expiry of the lease.

**1.20 TRADE AND OTHER PAYABLES**

Trade and other payables are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

Financial guarantee contracts are recognised initially at fair value and subsequently at the higher of: the initially recognised fair value, less appropriate cumulative amortisation recognised on a straight-line basis over the estimated duration of the contract, or an amount that is the best estimate of the expenditure required to settle the present obligation at statement of financial position date. Intra-group financial guarantees are eliminated on consolidation.

When the financial guarantee contract is issued by the Company to a subsidiary, the fair value at initial recognition is capitalised as part of the investment in the relevant subsidiary.

**1.21 EMPLOYEE BENEFITS****1.21.1 PENSION OBLIGATIONS**

The Group operates various pension schemes. The schemes are funded through payments to trustee-administered funds in accordance with the plan terms.

**PROVIDENT FUND**

A defined-contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group's contributions to defined contribution plans, in respect of services rendered in a particular period, are recognised as an expense in that period. Additional contributions are recognised as an expense in the period during which the associated services are rendered by employees.

**1.21.2 POST-EMPLOYMENT MEDICAL BENEFITS**

The Group provides for post-employment medical benefits, where they exist. The expected costs of these benefits are accrued over the period of employment based on past services and charged to the statement of comprehensive income as employee benefits. This post-employment medical benefit obligation is measured at present value by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. The future cash outflows are estimated using amongst others the following assumptions: health-care cost inflation; discount rates; salary inflation; promotions and experience increases; expected mortality rates; expected retirement age; and continuation at retirement. Valuations of this obligation are carried out annually by independent qualified actuaries in respect of past-service liabilities using the projected unit credit method. Actuarial gains or losses are recognised immediately in equity as other comprehensive income. Settlement premiums, when incurred, are recognised immediately in the statement of comprehensive income as employee benefits.

**1.21.3 CASH-SETTLED SHARE-BASED PAYMENTS**

The Group recognises a liability for cash-settled share-based payments calculated at current fair value determined at each statement of financial position date. The fair value is calculated using relevant pricing models. This amount is expensed through the statement of comprehensive income over the vesting periods.

**1.21.4 EQUITY-SETTLED SHARE-BASED PAYMENTS**

The Group operates an equity-settled share-based compensation plan under which it receives services from employees as consideration for equity instruments of the Company. The beneficiaries under the scheme are executive directors and management. The fair value of the employee services received in exchange for the grant of shares is recognised as an expense on a straight-line basis over the vesting period, with a corresponding adjustment to the share-based payment reserve.



## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.21 EMPLOYEE BENEFITS (CONTINUED)

#### 1.21.4 EQUITY-SETTLED SHARE-BASED PAYMENTS (CONTINUED)

The total amount to be expensed is determined by reference to the fair value of the shares granted, including any market performance conditions and excluding the impact of any non-market performance vesting conditions. Non-market performance vesting conditions are included in assumptions regarding the number of shares granted that are expected to vest. At the end of each reporting period, the Group revises its estimates of the number of shares granted that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

Full share grants awarded may be settled by way of a purchase of shares in the market, use of treasury shares or issue of new shares. If new shares are issued to equity-settle full share grants, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Where shares are held or acquired by subsidiary companies for equity compensation plans, they are treated as treasury shares. Any gains or losses on vesting of such shares are recognised directly in equity.

The effect of all full share grants issued under the share-based compensation plan is taken into account when calculating diluted earnings and diluted headline earnings per share.

#### 1.21.5 BONUS PLANS

The Group recognises a liability and an expense for bonuses, based on formulas that take into consideration the Group's trading profit after certain adjustments. The accrual for this liability is made where a contractual or constructive obligation exists.

### 1.22 IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets that have an indefinite useful life are not subject to depreciation and amortisation and are tested for impairment at each statement of financial position date. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the full carrying amount may not be recoverable. The determination of whether an asset is impaired requires significant management judgment and, amongst others, the following factors will be considered: duration and extent to which the fair value of the assets is less than its cost; industry, geographical and sector performance; changes in regional economies and operational and financing cash flows.

Where the carrying value of an asset exceeds its estimated recoverable amount, the carrying value is impaired and the asset is written down to its recoverable amount. The recoverable amount is calculated as the higher of the asset's fair value less cost to sell and the value in use. These calculations are prepared based on management's assumptions and estimates such as forecasted cash flows; management budgets and industry, regional and geographical operational and financial outlooks. For the purpose of impairment testing the assets are allocated to cash-generating units (CGUs) or a group of CGUs. CGUs are the lowest levels for which separately identifiable cash flows can be determined. The related impairment expense is charged to the statement of comprehensive income as expenditure of a capital nature.

The Group assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset, other than goodwill, may no longer exist or may have decreased. If any such indication exists the Group will immediately recognise the reversal as income of a capital nature in the statement of comprehensive income. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

### 1.23 REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of merchandise from ordinary Group-operating activities, net of value added tax, rebates and discounts and after eliminating sales within the Group. Sales are recognised upon delivery of products and customer acceptance. Payment is usually received via cash, debit card or credit card. Related card transaction costs are recognised in the statement of comprehensive income as other expenses. When merchandise is sold under instalment sale agreements, the present value of the instalment sale payments is recognised as a receivable.

### 1.24 OTHER OPERATING INCOME

Other operating income is recognised as follows:

#### 1.24.1 FINANCE INCOME EARNED

When merchandise is sold under instalment sale agreements, the present value of the instalment sale payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Finance income is recognised over the term of the instalment sale using the effective interest rate method, which reflects a constant periodic rate of return.

#### 1.24.2 RENTAL INCOME

Rental income in respect of operating leases with a fixed escalation clause is recognised on a straight-line basis over the lease term. All other rental income is recognised as it becomes due. Refer note 1.15.2.

#### 1.24.3 FRANCHISE FEES RECEIVED

Franchise fees received comprises fees received from franchisees and are recognised when the underlying sales, which give rise to the income, occur.

#### 1.24.4 PREMIUM INCOME

Premium income is recognised in the period it is earned. Net premiums earned are all written premiums relating to policies inception during the period less amounts that are unearned at statement of financial position date. Refer note 1.30.2.



**1. ACCOUNTING POLICIES (CONTINUED)****1.24 OTHER OPERATING INCOME (CONTINUED)****1.24.5 INTEREST INCOME**

Interest income is recognised as it accrues, taking into account the effective yield on the related asset.

**1.24.6 DIVIDEND INCOME**

Dividend income is recognised when the shareholders' right to receive payment is established.

**1.24.7 GIFT VOUCHERS AND SAVINGS STAMPS**

Proceeds from the sale of gift vouchers and saving stamps are initially recognised in other payables, deferring the income. The income is recognised as cash sales of goods when the gift vouchers or savings stamps are redeemed.

**1.24.8 COMMISSION RECEIVED**

The Group acts as a payment office for the services and products provided by a variety of third parties to the Group's customers. The agent's commissions received by the Group from the third parties for the payment office service are recognised as other income. Commissions relating to third-party products are recognised when the underlying third-party payments take place. Commissions relating to third-party services are recognised based on the stage of completion by reference to services performed to date as a percentage of the total services to be performed.

**1.25 BORROWING COSTS**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for its intended use or sale, are capitalised to the cost of that qualifying asset. The Group considers a period longer than 12 months to be a substantial period of time.

General borrowing costs are capitalised by calculating the weighted average expenditure on the qualifying asset and applying a weighted average borrowing rate to the expenditure. Specific borrowing costs are capitalised according to the borrowing costs incurred on the specific borrowing, provided the borrowing facility is utilised specifically for the qualifying asset. All other borrowing costs incurred are recognised as an expense in the statement of comprehensive income and are accrued on a time basis by reference to the principal amounts outstanding and at the interest rate applicable.

**1.26 CURRENT AND DEFERRED INCOME TAX**

The income tax expense for the period comprises current and deferred income tax. Income tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity, in which case it will also be recognised directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group operates and generates taxable income.

Deferred income tax is recognised, using the liability method, for calculated income tax losses and temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised. Management applies judgment to determine whether sufficient future taxable profit will be available after considering, amongst others, factors such as profit histories, forecasted cash flows and budgets.

Deferred income tax liabilities are recognised on taxable temporary differences arising from investments in subsidiaries, joint arrangements and associates, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group is subject to taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide accrual for income taxes. There are many transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated uncertain income tax positions based on best informed estimates of whether additional income taxes will be due. Where the final income tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax assets and liabilities in the period in which such determination is made.

**1.27 EARNINGS PER SHARE**

Earnings and headline earnings per share are calculated by dividing the net profit attributable to owners of the parent and headline earnings, respectively, by the weighted average number of ordinary shares in issue during the year, excluding the ordinary shares held by the Group as treasury shares.

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all ordinary shares with dilutive potential. Convertible debt and full share grants have dilutive potential. The convertible debt and full share grants are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense of the convertible debt less the tax effect. The full share grants have no effect on net profit and therefore no adjustment is made to net profit for full share grants.

Headline earnings are calculated in accordance with Circular 2/2015 issued by the South African Institute of Chartered Accountants as required by the JSE Listings Requirements.



## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.28 GOVERNMENT GRANTS

Government grants, being assistance by government in the form of allowances and refunds for certain expenditure, are recognised at fair value when the Group complies with the conditions attached to the grants and the grants have been received. The grants are recognised, on a systematic basis, in the statement of comprehensive income as a deduction of the related expense over the periods necessary to match them with the related costs.

### 1.29 DIVIDENDS DISTRIBUTED TO SHAREHOLDERS

Dividends are accounted for on the date they have been declared by the Company.

### 1.30 BASIS OF ACCOUNTING FOR UNDERWRITING ACTIVITIES

#### 1.30.1 CLASSIFICATION OF CONTRACTS

Insurance risk is risk other than financial risk, transferred from the holder of a contract to the issuer. The accounting policies of the Group are in accordance with the policies for recognition and measurement of short term insurance contracts as outlined in SAICA Circular 2/2007 and IFRS 4: Insurance Contracts.

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary, are classified as insurance contracts.

An insurance risk is deemed significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. If significant additional benefits would be payable in scenarios that have commercial substance, the condition in the previous sentence may be met even if the insured event is extremely unlikely or even if the expected (i.e. probability weighted) present value of contingent cash flows is a small proportion of the expected present value of all the remaining contractual cash flows.

#### 1.30.2 RECOGNITION AND MEASUREMENT OF CONTRACTS

##### A) PREMIUMS ARISING FROM GENERAL INSURANCE BUSINESS

Gross written premiums comprise the premiums on insurance contracts entered into during the year. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. Premiums are accounted for as income when the risk related to the insurance policy incepts.

##### B) UNEARNED PREMIUM ALLOWANCE

The allowance for unearned premiums comprises the proportion of gross premiums written which relate to the unexpired period at the reporting date and is estimated to be earned in the following or subsequent financial years. The unearned premium allowance is computed separately for each insurance contract on a basis appropriate to the Group's release from insured risk, using the 365<sup>th</sup> method.

##### C) CLAIMS ARISING FROM INSURANCE BUSINESS

Claims incurred in respect of insurance contracts consist of claims and claims-handling expenses paid during the financial year together with the movement in the provision for incurred but not reported claims. Provisions for incurred but not reported claims comprise provisions for claims arising from insured events that occurred before the statement of financial position date, but which had not been reported to the Group by that date.

##### D) PROVISION FOR OUTSTANDING CLAIMS

Provision is made for the estimated final cost of all claims that had not been settled by the reporting date, less amounts already paid. Liabilities for unpaid claims are estimated, using the input of assessments for individual cases reported to the Group and statistical analyses, to estimate the expected cost of more complex claims that may be affected by external factors. The Group does not discount its liabilities for unpaid claims.

##### E) REINSURANCE

The Group has evaluated its exposure to risk and determined that significant reinsurance protection is not required.

##### F) LIABILITIES AND RELATED ASSETS UNDER LIABILITY ADEQUACY TEST

At each statement of financial position date, liability adequacy tests are performed on the Group's insurance entities to ensure the adequacy of the contract liabilities net of related deferred acquisition cost (DAC) and any related assets (i.e. the value of business acquired assets (VOBA)). In performing these tests, current best estimates of future contractual cash flows and claims-handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC or VOBA and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

### 1.31 RELATED PARTIES

Individuals, as well as their close family members, or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions or if the parties are jointly controlled in a joint venture. Key management personnel are defined as all directors of Shoprite Holdings Ltd and the prescribed officers of the main trading subsidiary (Shoprite Checkers (Pty) Ltd) of the Group.

### 1.32 EXCEPTIONAL ITEMS

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.





## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.33 OPERATING SEGMENT INFORMATION

An operating segment is a component of the Group that engages in business activities which may earn revenues and incur expenses and whose operating results are regularly reviewed by the Group's chief operating decision maker (this being the executive members of the Shoprite Holdings Ltd board of directors), in order to allocate resources and assess performance and for which discrete financial information is available.

Operating segments, which display similar economic characteristics and have similar products, services, customers, methods of distribution and regulatory environments are aggregated for reporting purposes.

The Group has the following four reportable segments:

- 1. Supermarkets RSA:** all retail operations under the Shoprite, Checkers, Checkers Hyper and Usave brands in South Africa, retailing products such as food, clothing, general merchandise, cosmetics and liquor.
- 2. Supermarkets Non-RSA:** all retail operations under the Shoprite, Checkers, Checkers Hyper, Usave and certain Hungry Lion brands outside of South Africa, retailing products such as food, clothing, general merchandise, cosmetics and liquor.
- 3. Furniture:** all retail operations under the OK Furniture, OK Power Express and House & Home brands trading in RSA and Non-RSA, retailing products such as furniture, household appliances and home entertainment systems for cash or credit.
- 4. Other operating segments:** all other operations not included in the above segments, trading in RSA and Non-RSA, including franchise operations and retail and wholesale of pharmaceutical products.

These segments were identified and grouped together using a combination of the products and services offered by the segments and the geographical areas in which they operate.

The amounts reported to the chief operating decision maker are measured in a manner consistent with that in the statement of comprehensive income and statement of financial position.

### 1.34 STANDARDS, INTERPRETATIONS AND AMENDMENTS THAT ARE NOT YET EFFECTIVE AT JUNE 2016

The Group has considered the following new standards, and interpretations and amendments to existing standards, which are not yet effective as at June 2016:

Number	Title	Effective for year ending
IFRS 9	Financial Instruments	June 2019
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	Postponed
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception	June 2017
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	June 2017
IFRS 14	Regulatory Deferral Accounts	June 2017
IFRS 15	Revenue from Contracts with Customers	June 2019
IFRS 16	Leases	June 2020
Amendments to IAS 1	Disclosure Initiative	June 2017
Amendments to IAS 7	Disclosure Initiative	June 2018
Amendments to IAS 12	Recognition of Deferred Tax Assets	June 2018
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	June 2017
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants	June 2017
Amendment to IAS 27	Equity Method in Separate Financial Statements	June 2017
Various	Annual Improvements 2012 – 2014 cycle	June 2017

The Group has not early adopted any of the above. The application thereof in future financial periods is not expected to have a significant impact on the Group's reported results, financial position and cash flows, except for the standards set out below.

**IFRS 9: Financial Instruments** addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in *IAS 39 Financial Instruments: Recognition and Measurement* with a single model that has only two classification categories (amortised cost and fair value). IFRS 9 includes guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, without change, except for financial liabilities that are designated at fair value through profit or loss. The Group is still assessing the potential impact on the consolidated financial statements.

**IFRS 15: Revenue from Contracts with Customers** establishes a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfers to a customer. The Group is in the process of assessing the impact on the consolidated financial statements. It is expected to affect mainly agent vs principle accounting and the manner in which advertising rebates are accounted for.

**IFRS 16: Leases** requires lessees to recognise assets and liabilities arising from all leases (with limited exceptions) on the statement of financial position. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. It is not required of lessees to recognise assets and liabilities for short-term leases (less than 12 months) and leases for which the underlying asset is of low value (such as laptops and office furniture). A lessee shall measure lease liabilities at the present value of future lease payments. Lease assets should be measured initially at the same amount as the lease liability and also include costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. The Group is still assessing the potential impact on the consolidated financial statements.



## 2. OPERATING SEGMENT INFORMATION

### 2.1 ANALYSIS PER REPORTABLE SEGMENT

	June 2016				
	Supermarkets RSA	Supermarkets Non-RSA	Furniture	Other operating segments	Consolidated
	Rm	Rm	Rm	Rm	Rm
Sale of merchandise					
External	94 167	22 246	5 207	8 408	130 028
Inter-segment	3 936	17	—	28	3 981
	<b>98 103</b>	<b>22 263</b>	<b>5 207</b>	<b>8 436</b>	<b>134 009</b>
Trading profit	5 814	1 231	99	134	7 278
Depreciation and amortisation	1 737	413	96	42	2 288
Total assets	30 196	11 500	4 003	2 568	48 267
	June 2015				
	Supermarkets RSA	Supermarkets Non-RSA	Furniture	Other operating segments	Consolidated
	Rm	Rm	Rm	Rm	Rm
Sale of merchandise					
External	84 945	16 781	4 516	7 452	113 694
Inter-segment	3 250	11	—	87	3 348
	<b>88 195</b>	<b>16 792</b>	<b>4 516</b>	<b>7 539</b>	<b>117 042</b>
Trading profit	5 268	741	205	114	6 328
Depreciation and amortisation	1 536	319	77	30	1 962
Total assets	28 056	9 726	4 019	2 119	43 920

### 2.2 GEOGRAPHICAL ANALYSIS

	June 2016		
	South Africa	Outside South Africa	Consolidated
	Rm	Rm	Rm
Sale of merchandise – external	105 603	24 425	130 028
Non-current assets*	14 193	4 600	18 793
	June 2015		
	South Africa	Outside South Africa	Consolidated
	Rm	Rm	Rm
Sale of merchandise – external	95 121	18 573	113 694
Non-current assets*	12 811	4 030	16 841

\* Non-current assets consist of property, plant and equipment, intangible assets and fixed escalation operating lease accruals.



Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

### 3. PROPERTY, PLANT AND EQUIPMENT

#### 3.1 RECONCILIATION OF CARRYING VALUES

GROUP					
Rm	Land	Buildings	Machinery, equipment and vehicles*	Leasehold improvements	Total
Carrying value at June 2014	1 100	3 808	7 150	1 518	13 576
Cost	1 100	4 110	12 245	1 864	19 319
Accumulated depreciation and impairment	—	(302)	(5 095)	(346)	(5 743)
Additions	251	571	2 762	644	4 228
Borrowing costs capitalised (note 3.2)	—	15	1	28	44
Reclassification	(14)	(152)	1	165	—
Transfer to assets held for sale (note 4)	(29)	—	—	—	(29)
Transfer from assets held for sale (note 4)	—	50	—	—	50
Disposal	(12)	(309)	(151)	(8)	(480)
Proceeds on disposal	(3)	(5)	(54)	(9)	(71)
Profit/(loss) on disposal and scrapping	(9)	(304)	(97)	1	(409)
Depreciation	—	(57)	(1 643)	(54)	(1 754)
Impairment (note 3.3)	—	—	(8)	(3)	(11)
Reversal of impairment (note 3.3)	—	—	12	—	12
Exchange rate differences	(4)	(24)	(90)	(144)	(262)
Carrying value at June 2015	1 292	3 902	8 034	2 146	15 374
Cost	1 292	4 230	14 286	2 519	22 327
Accumulated depreciation and impairment	—	(328)	(6 252)	(373)	(6 953)
Additions	48	612	2 916	458	4 034
Borrowing costs capitalised (note 3.2)	—	20	—	5	25
Reclassification	(9)	8	—	1	—
Disposal	(1)	(2)	(128)	(5)	(136)
Proceeds on disposal	(1)	(3)	(80)	(1)	(85)
Profit/(loss) on disposal and scrapping	—	1	(48)	(4)	(51)
Depreciation	—	(60)	(1 870)	(63)	(1 993)
Impairment (note 3.3)	—	—	(5)	—	(5)
Reversal of impairment (note 3.3)	—	—	21	—	21
Exchange rate differences	(6)	(55)	(132)	(219)	(412)
Carrying value at June 2016	1 324	4 425	8 836	2 323	16 908
Cost	1 324	4 810	16 221	2 741	25 096
Accumulated depreciation and impairment	—	(385)	(7 385)	(418)	(8 188)

\* Includes aircraft with a carrying value of R112 million (2015: R91 million).

#### 3.2 BORROWING COSTS CAPITALISED

Borrowing costs were capitalised against qualifying items of property, plant and equipment during the year under review. The weighted average borrowings rate was 9.85% (2015: 9.85%).

#### 3.3 IMPAIRMENT/REVERSAL OF IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The recoverable amount of all property, plant and equipment is determined based on the higher of value-in-use and fair value less cost to sell.

The impairment charge in the current financial year arose in the Supermarkets Non-RSA (2015: Supermarkets RSA and Supermarkets Non-RSA) operating segment. This impairment was the result of a significant reduction in the future expected sales of merchandise in certain subsidiaries that own the assets, due to a weakening in the general economic conditions in which these subsidiaries operate.

The reversal of impairment, in the current and previous financial year, was due to improvements in the economic environment in which subsidiaries, where assets were previously impaired, operate. The original impairment charge as well as the reversal is included in the statement of comprehensive income as items of a capital nature. This impairment originated in the Supermarkets RSA (2015: Supermarkets RSA) operating segment.



<b>COMPANY</b>			<b>GROUP</b>	
June 2015 Rm	June 2016 Rm		June 2016 Rm	June 2015 Rm
		<b>4. ASSETS HELD FOR SALE</b>		
–	–	Carrying value	17	13

It is the Group's policy to invest in fixed property only when appropriate rental space is not available. Certain land and buildings in the Supermarkets Non-RSA (2015: Supermarkets RSA and Supermarkets Non-RSA) operating segment, have been reclassified as assets held for sale as the Group periodically re-evaluates its fixed property holdings in line with this policy. The Group is currently in the process of actively seeking buyers for these properties.

During the previous financial year certain properties were transferred back to property, plant and equipment. The sale of these properties were reconsidered. This decision to reclassify had no significant effect on the Group's results.

#### 4.1 RECONCILIATION OF CARRYING VALUE

		Carrying value at the beginning of the year	13	160
		Transfer from property, plant and equipment (note 3)	–	29
		Transfer to property, plant and equipment (note 3)	–	(50)
		Disposal	–	(124)
		Proceeds on disposal	–	(163)
		Profit on disposal and scrapping	–	39
		Exchange rate differences	4	(2)
–	–	Carrying value at the end of the year	17	13

#### 5. INTERESTS IN SUBSIDIARIES

5 005	5 906	Investments in ordinary shares		
2 603	1 852	Amounts owing by subsidiaries		
7 608	7 758		–	–
		Analysis of total interests in subsidiaries		
5 005	5 906	Non-current		
2 603	1 852	Current		
7 608	7 758		–	–

Detail analysis of the Company's interests in subsidiaries are given in annexure A.

Amounts owing by subsidiaries of the Company are unsecured and payable on demand. Amounts owing by Shoprite Investments Ltd earn interest at a rate equal to the rate obtained from the investment of surplus funds of the Company which averaged at a rate of 7.80% (2015: 6.35%) during the year under review. All other amounts owing by subsidiaries are interest-free.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

<b>COMPANY</b>			<b>GROUP</b>	
June 2015 Rm	June 2016 Rm		June 2016 Rm	June 2015 Rm
<b>6. INVESTMENT IN ASSOCIATES AND JOINT VENTURES</b>				
6	6	Investment in associates (note 6.1)	75	177
—	—	Investment in joint ventures (note 6.2)	(36)	1
6	6		39	178
—	—	Joint venture liability included in trade and other payables (note 20)	56	—
6	6		95	178
<b>6.1 INVESTMENT IN ASSOCIATES</b>				
—	6	Carrying value at the beginning of the year	177	149
6	—	Investment in ordinary shares acquired	—	6
—	—	Share of total comprehensive income	56	24
—	—	Share of post-acquisition (losses)/profits	(16)	1
—	—	Share of other comprehensive income	72	23
—	—	Disposal	(172)	—
—	—	Proceeds on disposal of investment in associate	(197)	—
—	—	Profit on disposal of investment in associate	25	—
—	—	Exchange rate differences	14	(2)
6	6	Carrying value at the end of the year	75	177

The associates listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. These are private companies and no quoted market prices are available for its shares.

	% Owned by the Group	
	June 2016	June 2015
Winhold Ltd	0%	49%
Resilient Africa (Pty) Ltd*	39%	39%
Resilient Africa Managers (Pty) Ltd*	39%	39%

\* These investments are owned directly by the Company.

The Group is committed to provide a shareholder loan to Resilient Africa (Pty) Ltd to a maximum of R1.457 billion (2015: R597.6 million).

There are no contingent liabilities relating to the Group's interests in associates.



<b>COMPANY</b>		<b>GROUP</b>	
June 2015 Rm	June 2016 Rm	June 2016 Rm	June 2015 Rm
<b>6. INVESTMENT IN ASSOCIATES AND JOINT VENTURES (CONTINUED)</b>			
<b>6.2 INVESTMENT IN JOINT VENTURES</b>			
		1	6
		(32)	(1)
		(36)	(3)
		4	2
		(5)	(4)
–	–	(36)	1
<p>The joint ventures listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. These are private companies and no quoted market prices are available for its shares.</p>			
<b>% Owned by the Group</b>			
		June 2016	June 2015
		50%	50%
		50%	50%
<p>There are no contingent liabilities relating to the Group's interests in joint ventures.</p>			
<b>7. LOANS AND RECEIVABLES</b>			
		503	295
		225	228
		140	82
		1	1
–	–	869	606
<p>Analysis of total loans and receivables</p>			
		599	547
		270	59
–	–	869	606
–	–	<b>7.1 AMOUNTS OWING BY ASSOCIATE</b>	503
			295
<p>The amount owing by Resilient Africa (Pty) Ltd earns interest at an average rate of 6.6% p.a. and is repayable on demand, subject to certain conditions. The loan is denominated in ZAR and no allowance for impairment has been made. The maximum exposure to credit risk at the reporting date is the carrying value, which approximates fair value. The Group does not hold any collateral as security.</p>			





Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

<b>COMPANY</b>		<b>GROUP</b>	
June 2015 Rm	June 2016 Rm	June 2016 Rm	June 2015 Rm
<b>7. LOANS AND RECEIVABLES (CONTINUED)</b>			
–	–	<b>225</b>	228
<b>7.2 AMOUNTS OWING BY EMPLOYEES</b>			
<p>The amounts owing by employees earn interest at an average rate of 6.5% p.a. and are repayable on 30 June 2017. Accrued interests are payable bi-annually on 3 April and 3 October. The loans are denominated in ZAR and no allowance for impairment has been made. These loans were granted on commercial terms with full recourse. The maximum exposure to credit risk at the reporting date is the carrying value. Shoprite Investments Ltd 6.5% convertible bonds to the value of R202 million (2015: R210 million) are held as collateral for these loans.</p> <p>The fair value of amounts owing by employees amounted to R217 million (2015: R216 million) at the statement of financial position date. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 10.5% (2015: 9.3%) and is within level 2 of the fair value hierarchy.</p>			
<b>7.3 AMOUNTS OWING BY FRANCHISEES</b>			
		<b>146</b>	88
		<b>(6)</b>	(6)
–	–	<b>140</b>	82
<p>The weighted average variable interest rate (linked to the South African prime rate) on these amounts was 10.4% (2015: 9.7%) p.a. and the amounts are repayable between one and five years. The amounts are mainly denominated in ZAR. The maximum exposure to credit risk at the reporting date is the carrying value, which approximates fair value. Balances are due within 30 days of statement date and the age analysis of these amounts are reviewed on a monthly basis. All amounts past due 60 days or more are individually impaired. The credit history of all franchisees are verified with an external credit bureau. Notarial and mortgage bonds and bank guarantees to the value of R155 million (2015: R120 million) are held as collateral for these amounts.</p>			
		<b>6</b>	2
		<b>–</b>	4
–	–	<b>6</b>	6
<p>The allowance for impairment relates to the following amounts owing by franchisees:</p>			
		<b>3</b>	3
		<b>7</b>	5
		<b>10</b>	4
–	–	<b>20</b>	12
<p>Amounts owing by franchisees relate to a wide-spread number of franchisees which are individually insignificant.</p> <p>The individually impaired amounts owing by franchisees relate to franchisees experiencing unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. Interest of R2.3 million (2015: R3.6 million) was accrued on these balances during the year under review. All balances that were past due were considered for impairment.</p>			



<b>COMPANY</b>			<b>GROUP</b>	
June 2015 Rm	June 2016 Rm		June 2016 Rm	June 2015 Rm
		<b>8. DEFERRED INCOME TAX</b>		
1	1	Deferred income tax assets (note 8.1)	599	469
—	—	Deferred income tax liabilities (note 8.2)	(130)	(188)
1	1	Net deferred income tax assets	469	281
		The movement in the net deferred income tax assets is as follows:		
1	1	Carrying value at the beginning of the year	281	253
—	—	Charge to profit for the year	229	49
—	—	Provisions and accruals	201	63
—	—	Allowances on property, plant and equipment	(75)	(31)
—	—	Fixed escalation operating lease accruals	48	48
—	—	Allowances on intangible assets	30	(51)
—	—	Unrealised exchange rate differences	13	43
—	—	Tax losses	12	(14)
—	—	Tax rate change	—	(9)
—	—	Exchange rate differences	(41)	(21)
1	1	Carrying value at the end of the year	469	281
		<b>8.1 DEFERRED INCOME TAX ASSETS</b>		
1	1	Provisions and accruals	746	686
—	—	Allowances on property, plant and equipment	(492)	(456)
—	—	Fixed escalation operating lease accruals	274	255
—	—	Allowances on intangible assets	(55)	(111)
—	—	Unrealised exchange rate differences	91	95
—	—	Tax losses	35	—
1	1		599	469
—	—	Net taxable temporary differences to be settled after more than 12 months	(654)	(537)
1	1	Net deductible temporary differences to be recovered within 12 months	1 253	1 006
1	1		599	469
		<b>8.2 DEFERRED INCOME TAX LIABILITIES</b>		
—	—	Provisions and accruals	(48)	146
—	—	Allowances on property, plant and equipment	144	67
—	—	Fixed escalation operating lease accruals	(31)	(2)
—	—	Allowances on intangible assets	74	—
—	—	Tax losses	(9)	(23)
—	—		130	188
—	—	Net taxable temporary differences to be settled after more than 12 months	160	136
—	—	Net (deductible)/taxable temporary differences to be settled/ (recovered) within 12 months	(30)	52
—	—		130	188



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

<b>COMPANY</b>		<b>GROUP</b>	
June 2015 Rm	June 2016 Rm	June 2015 Rm	June 2016 Rm
<b>8. DEFERRED INCOME TAX (CONTINUED)</b>			
<b>8.3 NET CALCULATED INCOME TAX LOSSES AND NET DEDUCTIBLE TEMPORARY DIFFERENCES</b>			
Calculated income tax losses and net deductible temporary differences at year-end		<b>4 188</b>	2 642
Applied in the provision for deferred income tax		<b>(1 712)</b>	(1 026)
—	—	<b>2 476</b>	1 616
<p>The utilisation of the income tax relief on net calculated income tax losses, to the value of R537 million (2015: R407 million), is dependent on sufficient future taxable income in the companies concerned. The income tax relief is calculated at current income tax rates and translated at closing rates.</p> <p>The carry forward of all gross calculated income tax losses is indefinite, except for certain African countries, as set out below:</p>			
Expiry date of income tax relief			
30 June 2016		—	5
30 June 2017		<b>26</b>	27
30 June 2018		<b>14</b>	9
30 June 2019		<b>7</b>	3
30 June 2020		<b>7</b>	10
30 June 2021		<b>2</b>	1
—	—	<b>56</b>	55
Calculated temporary differences on consolidation associated with investments in subsidiaries for which deferred income tax liabilities have not been created		<b>199</b>	117
—	—		



## 9. INTANGIBLE ASSETS

### 9.1 RECONCILIATION OF CARRYING VALUES

#### GROUP

Rm	Goodwill	Software	Trademarks	Customer relationships	Total
Carrying value at June 2014	276	879	40	30	1 225
Gross amount	440	1 300	194	54	1 988
Accumulated amortisation and impairment losses	(164)	(421)	(154)	(24)	(763)
Acquisition of operations (note 34.5)	2	—	—	—	2
Additions	—	232	—	—	232
Internally generated	—	171	—	—	171
Borrowing costs capitalised (note 9.2)	—	48	—	—	48
Amortisation	—	(198)	(4)	(6)	(208)
Impairment (note 9.4)	(12)	—	—	—	(12)
Exchange rate differences	(1)	1	—	—	—
Carrying value at June 2015	265	1 133	36	24	1 458
Gross amount	429	1 751	194	54	2 428
Accumulated amortisation and impairment losses	(164)	(618)	(158)	(30)	(970)
Additions	—	396	—	—	396
Internally generated	—	322	—	—	322
Borrowing costs capitalised (note 9.2)	—	47	—	—	47
Loss on disposal and scrapping	—	(7)	—	—	(7)
Amortisation	—	(287)	(3)	(5)	(295)
Impairment (note 9.4)	—	(66)	—	—	(66)
Exchange rate differences	2	—	—	—	2
Carrying value at June 2016	267	1 538	33	19	1 857
Gross amount	427	2 498	194	54	3 173
Accumulated amortisation and impairment losses	(160)	(960)	(161)	(35)	(1 316)

### 9.2 BORROWING COSTS CAPITALISED

Borrowing costs were capitalised against qualifying items of software during the year under review. The weighted average borrowings rate was 9.85% (2015:9.85%).

### 9.3 SOFTWARE NOT YET IN USE

Included in the gross amount of software is R754 million (2015: R189 million) that relates to cost capitalised for software not yet available for use. This relates mainly to the development and implementation of SAP merchandising software. The gross amount of software not yet in use was evaluated for impairment by the directors at the statement of financial position date.



**9. INTANGIBLE ASSETS (CONTINUED)****9.4 IMPAIRMENT OF INTANGIBLE ASSETS****9.4.1 IMPAIRMENT OF SOFTWARE**

The recoverable amount of all software is determined based on the higher of value-in-use and fair value less cost to sell.

The impairment charge in the current financial year arose in the Supermarkets RSA operating segment. This impairment was the result of components of SAP merchandising software becoming obsolete.

**9.4.2 IMPAIRMENT OF GOODWILL**

Goodwill is allocated to the Group's cash-generating units (CGUs). The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering five-year planning periods. Cash flows beyond these planning periods are extrapolated using an estimated growth rate of 5.0% (2015: 5.0%). This does not exceed the long term average growth rate for the business in which the CGUs operate. The following represent significant assumptions on which management based cash flow projections.

	<b>June 2016</b>	June 2015
	%	%
<b>SUPERMARKET OPERATIONS</b>		
Operating margin*	<b>5.8</b>	6.0
Growth rate**	<b>5.0</b>	5.0
Pre-tax discount rate***	<b>11.1</b>	10.6
<b>OTHER OPERATIONS</b>		
Operating margin*	<b>2.8</b>	2.7
Growth rate**	<b>5.0</b>	5.0
Pre-tax discount rate***	<b>11.1</b>	10.6

\* Forecasted operating margin, based on budgets, relating to the specific CGUs to which goodwill is allocated. This rate does not apply to the Group as a whole.

\*\* Weighted average sales growth rate

\*\*\* Pre-tax discount rate applied to the cash flow projections

These key assumptions are used for the analysis of each CGU within the geographical segment. Management determines budgeted sales growth rates and gross profit margins based on past performance and its expectations of the retail market within the relevant country or area.

The impairment charge in the previous financial year arose in CGUs in the Supermarkets RSA and Supermarkets Non-RSA operating segments. This impairment was the result of a significant reduction in the future expected sales of merchandise due to a weakening in the general economic conditions in which these CGUs operate.







## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

<b>COMPANY</b>		<b>GROUP</b>	
June 2015 Rm	June 2016 Rm	June 2016 Rm	June 2015 Rm
<b>12. TRADE AND OTHER RECEIVABLES (CONTINUED)</b>			
<b>12.2 ACCUMULATED IMPAIRMENT</b>			
Reconciliation of accumulated impairment			
		<b>219</b>	193
		<b>146</b>	102
		<b>(118)</b>	(95)
		<b>20</b>	21
		<b>(1)</b>	(2)
—	—	<b>266</b>	219
The accumulated impairment relates to actual arrears, individual repayments that are past due, and the age analysis below reflects the period that these amounts are overdue.			
		<b>42</b>	43
		<b>29</b>	28
		<b>22</b>	21
		<b>18</b>	16
		<b>15</b>	13
		<b>12</b>	11
		<b>82</b>	69
—	—	<b>220</b>	201

The accumulated impairment is calculated with reference to actual default history of the Group's instalment sale receivables on a collective basis and is in line with industry norms. On this basis the provision of R266 million (2015: R219 million) was calculated taking into account the actual arrears of R220 million (2015: R201 million) and an amount of R577 million (2015: R597 million) which represents the maximum exposure if all debtors included in actual arrears continued to default. It was assessed that a portion of the receivables is expected to be recovered. All amounts that have not been impaired are fully performing and have no overdue instalments. Based on this the credit quality of these amounts is considered to be satisfactory.



<b>COMPANY</b>		<b>GROUP</b>	
June 2015 Rm	June 2016 Rm	June 2016 Rm	June 2015 Rm
<b>12. TRADE AND OTHER RECEIVABLES (CONTINUED)</b>			
<b>12.3 TRADE RECEIVABLES</b>			
		<b>1 908</b>	1 754
		<b>(160)</b>	(150)
—	—	<b>1 748</b>	1 604

Trade receivables consist mainly of sale of merchandise to franchisees and buying aid societies. The amounts are mainly denominated in ZAR. The maximum exposure to credit risk at the reporting date is the carrying value which approximates fair value. Balances are due within 30 days of statement date and the age analysis of these amounts are reviewed on a monthly basis. All amounts past due 60 days or more are individually assessed for impairment. Franchisees comprise a wide-spread client base and the credit history of all franchisees are verified with an external credit bureau. Notarial and mortgage bonds and bank guarantees to the value of R991 million (2015: R1,224 million) are held as collateral for these amounts. Long standing trading relationships exist with the buying aid societies and the Group reviews the credit history, based on its own records as well as information from an external credit bureau, of these societies on a cyclical basis. Based on this the Group considers the credit quality of all fully performing amounts as satisfactory.

Reconciliation of accumulated impairment			
		<b>150</b>	132
		<b>44</b>	38
		<b>(35)</b>	(11)
		<b>4</b>	2
		<b>(3)</b>	(11)
—	—	<b>160</b>	150

The provision for impairment relates to trade receivables of R179 million (2015: R176 million) receivable within the next 12 months.

These individually impaired amounts relate mostly to franchisees experiencing unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. Interest of R2.8 million (2015: R1.4 million) was accrued on these balances during the year under review.

Trade receivables of R142 million (2015: R120 million) that were past due for more than 30 days of statement date were not impaired. These amounts relate to a number of debtors for whom there is no recent history of default.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

<b>COMPANY</b>			<b>GROUP</b>	
June 2015	June 2016		June 2016	June 2015
Rm	Rm		Rm	Rm
		<b>12. TRADE AND OTHER RECEIVABLES (CONTINUED)</b>		
–	–	<b>12.4 OTHER RECEIVABLES</b>	<b>1 079</b>	1 106
		Other receivables consist of various operational debtors such as rental and municipal deposits refundable. The balance includes an insurance claim receivable in respect of the fire at the Shoprite store and distribution centre in Palanca, Angola (refer note 33). The amounts are mainly denominated in ZAR, other than the Palanca insurance claim which is denominated in Angola kwanza. The maximum exposure to credit risk at the reporting date is the carrying value which approximates fair value. The age analysis of these amounts are reviewed on a monthly basis and credit worthiness assessed. If the credit risk of any individual receivable is deemed to be material the credit history of the relevant client will be verified with an external credit bureau. No security is held for these balances.		
–	–	<b>12.5 AMOUNTS OWING BY JOINT VENTURES</b>	<b>318</b>	164
		These amounts owing are payable on demand and earn interest at an average of 6.9% (2015: 5.7%) p.a. A guarantee to the value of R62 million is held as collateral for these amounts. The maximum exposure to credit risk at the reporting date is the carrying value. The amounts are mainly denominated in ZAR and no allowance for impairment has been made.		
		<b>13. DERIVATIVE FINANCIAL INSTRUMENTS</b>		
–	–	Forward foreign exchange rate contracts (note 42.1.1)		
		Current liabilities	<b>32</b>	2
		As at June 2016 the settlement dates on open forward contracts ranged between one and four (2015: one and three) months. The local currency amounts to be received and contractual exchange rates of the Group's outstanding contracts were:		
		US dollar rand equivalent at rates averaging		
		R1 = \$0.0645 (2015: R1 = \$0.0816)		
		Outflow	<b>(834)</b>	(482)
		Inflow	<b>798</b>	476
		Euro rand equivalent at rates averaging		
		R1 = €0.0576 (2015: R1 = €0.0731)		
		Outflow	<b>(101)</b>	(162)
		Inflow	<b>96</b>	161



**COMPANY**

June  
2015  
Rm

**June  
2016  
Rm**

**GROUP**

June  
2016  
Rm

June  
2015  
Rm

**14. SHARE CAPITAL AND TREASURY SHARES****14.1 ORDINARY SHARE CAPITAL**

Authorised:

650 000 000 (2015: 650 000 000) ordinary shares of  
113.4 cents each

Issued:

572 871 960 (2015: 572 871 960) ordinary shares of  
113.4 cents each

650

**650****650**

650

Details of the shareholder spread and major shareholders are  
disclosed in Annexure B (unaudited).

Treasury shares held by Shoprite Checkers (Pty) Ltd are netted  
off against share capital on consolidation. The net number of  
ordinary shares in issue for the Group are:

	Number of shares	
	June 2016	June 2015
Issued ordinary share capital	<b>572 871 960</b>	572 871 960
Treasury shares (note 14.3)	<b>(38 246 183)</b>	(38 221 703)
	<b>534 625 777</b>	534 650 257

The unissued ordinary shares are under the control of the  
directors who may issue them on such terms and conditions  
as they deem fit until the Company's next annual general  
meeting.

All shares are fully paid up.

Details of special resolutions passed by the Company and its  
subsidiaries during the reporting period are provided in the  
directors' report. Full details are provided in the notice to  
shareholders contained in the Integrated Report.



Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

COMPANY		GROUP	
June 2015	June 2016	June 2015	June 2016
Rm	Rm	Rm	Rm

**14. SHARE CAPITAL AND TREASURY SHARES (CONTINUED)****14.2 DEFERRED SHARE CAPITAL**

Authorised:

360 000 000 (2015: 360 000 000) non-convertible, non-participating no par value deferred shares

Issued:

291 792 794 (2015: 291 792 794) non-convertible, non-participating no par value deferred shares

—

—

—

—

**Number of shares**

	June 2016	June 2015
Balance at the beginning of the year	291 792 794	290 625 071
Shares issued during the year	—	1 167 723
Balance at the end of the year	291 792 794	291 792 794

The unissued deferred shares are not under the control of the directors, and can only be issued under predetermined circumstances as set out in the Memorandum of Incorporation of Shoprite Holdings Ltd.

All shares are fully paid up and carry the same voting rights as the ordinary shares.

650

650

650

650

**14.3 TREASURY SHARES**

—

—

760

759

Reconciliation of movement in number of treasury shares for the Group:

	June 2016	June 2015
Balance at the beginning of the year	38 221 703	37 729 072
Shares purchased during the year	194 916	492 631
Shares disposed during the year	(57 503)	—
Shares utilised for settlement of equity-settled share-based payment arrangements	(112 933)	—
Balance at the end of the year	38 246 183	38 221 703

Consisting of:

Shares owned by Shoprite Checkers (Pty) Ltd	35 436 572	35 450 975
Shares held by Shoprite Checkers (Pty) Ltd for the benefit of participants to equity-settled share-based payment arrangements (refer to note 15.2)	2 809 611	2 770 728
	38 246 183	38 221 703



## 15. SHARE-BASED COMPENSATION PLANS

### 15.1 CASH-SETTLED SHARE-BASED PAYMENTS

The Group has granted cash-settled share-based payments to directors and management. The rights to cash-settled share-based payments entitle the participants to receive cash payments based on the difference between the share price at the date of the exercise of the rights and the strike price which relates to the share price at the date of the grant. The number of shares on which the rights are based as well as the strike prices and the exercise and expiry dates are set out below. The Group has recognised the liability in respect of the cash-settled share-based payments and included it in payables (refer note 20).

Refer note 24.1 for the expense recognised in the statement of comprehensive income as employee benefits.

	Weighted average strike price per share		Number of shares on which rights are based	
	June 2016	June 2015	June 2016	June 2015
Movements in rights to cash-settled share-based payments				
Balance at the beginning of the year	<b>R6.50</b>	R8.73	<b>1 000 000</b>	1 041 667
Exercised during the year	—	R62.35	—	(41 667)
Balance at the end of the year	<b>R6.50</b>	R6.50	<b>1 000 000</b>	1 000 000

Rights to cash-settled share-based payments outstanding at year-end are currently exercisable.

Director	Expiry date	Exercise date	Strike price per share	Number of shares on which rights are based	
				June 2016	June 2015
CH Wiese*	5 Sep 2022	Currently exercisable	R6.50	<b>1 000 000</b>	1 000 000

\* The right to the cash-settled share-based payments have been granted via a management company.

### 15.2 EQUITY-SETTLED SHARE-BASED PAYMENTS

#### 15.2.1 EXECUTIVE SHARE PLAN

The Group operates an executive share plan. In terms of the executive share plan, the Group has granted shares to directors and management in the form of forfeitable retention share awards and forfeitable co-investment share awards. The rights to the shares granted entitle the participants to receive Shoprite Holdings Ltd ordinary shares at a grant price of R156.96 per share. Full share grants awarded in terms of the executive share plan are conditional on the employee completing three years' service and co-investment share awards are further subject to the participant investing in the Group's convertible bonds and retaining their investment for the entire vesting period. The full share grants may be forfeited if participants fail to meet the vesting conditions. The terms and conditions of the schemes under the executive share plan are set out in the Remuneration Report contained in the Integrated Report.

Shares granted in terms of the executive share plan meet the definition of an equity-settled share-based payment. The Group has recognised a share-based payment reserve in respect of these equity-settled share-based payments and has included it within equity.

In terms of the executive share plan, the Company issued 2 292 500 new shares to the value of R360 million to its main trading subsidiary, Shoprite Checkers (Pty) Ltd, during 2014 for the benefit of the participants. The ownership of these shares vests with Shoprite Checkers (Pty) Ltd until vesting conditions are met by the participants. The participants will be entitled to the dividends and voting rights on the shares from the grant date. All grants issued will vest on 15 June 2017 if vesting conditions are met by participants.

Refer note 24.1 for the expense recognised in the statement of comprehensive income as employee benefits.





Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

## 15. SHARE-BASED COMPENSATION PLANS (CONTINUED)

### 15.2 EQUITY-SETTLED SHARE-BASED PAYMENTS (CONTINUED)

#### 15.2.1 EXECUTIVE SHARE PLAN (CONTINUED)

Movements in the number of full share grants awarded in terms of the executive share plan	Weighted average price per share on date of the grant		Number of shares	
	June 2016	June 2015	June 2016	June 2015
Balance at the beginning of the year	<b>R156.96</b>	R156.96	<b>2 282 500</b>	2 292 500
Shares forfeited during the year	<b>R156.96</b>	R156.96	<b>(30 000)</b>	(10 000)
Balance at the end of the year	<b>R156.96</b>	R156.96	<b>2 252 500</b>	2 282 500

Rights to full share grants awarded to participants in terms of the executive share plan outstanding at year-end are unconditional on 15 June 2017 or immediately in the case of a deceased estate.

Full share grants held by executive directors in terms of the executive share plan	Director	Grant date	Share price on date of the grant	Number of shares	
				June 2016	June 2015
JAL Basson		15 June 2014	R156.96	<b>40 000</b>	40 000
M Bosman		15 June 2014	R156.96	<b>50 000</b>	50 000
PC Engelbrecht		15 June 2014	R156.96	<b>80 000</b>	80 000
AE Karp		15 June 2014	R156.96	<b>60 000</b>	60 000

#### 15.2.2 INCENTIVE BONUS SHARE ALLOCATION SCHEME

The Group offers other long term incentives through participation in the virtual option plan and a deferred bonus plan. The terms and conditions of these plans are set out in the Remuneration Report contained in the Integrated Report. Employees were provided with a choice to settle their invested virtual option plan and deferred bonus plan benefits in restricted shares, governed by the executive share plan rules. As a result, the Group has granted shares to management in the form of forfeitable retention share awards. The rights to the shares granted entitle the participants to receive Shoprite Holdings Ltd ordinary shares at a grant price determined at the fair value of a full share grant as set out on the next page. These full share grants vest on the same dates as determined under the virtual option and deferred bonus plans, being in equal thirds over a three, four and five year period. Full share grants awarded under the incentive bonus share allocation scheme can be forfeited prior to vesting in the event of the participant terminating employment (apart from death and disability).

Shares granted in terms of the incentive bonus share allocation scheme meet the definition of an equity-settled share-based payment. The Group has recognised a modification of a cash bonus arrangement in respect of these long term incentives and transferred the liability as at the modification date from provisions to the share-based payment reserve within equity. (Refer to note 18.)

The Company's main trading subsidiary, Shoprite Checkers (Pty) Ltd, purchased 194 916 (2015: 492 631) Shoprite Holdings Ltd shares in the market for the benefit of the participants in the incentive bonus share allocation scheme. The ownership of these shares vests with Shoprite Checkers (Pty) Ltd until vesting conditions are met by the participants. The participants will be entitled to the dividends and voting rights on the shares from the grant date. The vesting dates range between 30 September 2016 and 30 September 2020 and are set out on the next page.

Refer note 24.1 for the expense recognised in the statement of comprehensive income as employee benefits.



## 15. SHARE-BASED COMPENSATION PLANS (CONTINUED)

### 15.2 EQUITY-SETTLED SHARE-BASED PAYMENTS (CONTINUED)

#### 15.2.2 INCENTIVE BONUS SHARE ALLOCATION SCHEME (CONTINUED)

The fair value of full share grants awarded in terms of the incentive bonus share allocation scheme during the year was based on the weighted average market price of a Shoprite Holdings Ltd share achieved when Shoprite Checkers (Pty) Ltd purchased these shares in the market and determined at R145.89 per share. The following assumptions were used in calculating the fair value:

	<b>June 2016</b>
Total number of full share grants awarded	<b>194 916</b>
Grant date	<b>3 November 2015</b>
Vesting date	<b>30 September 2018 – 2020</b>
Weighted average share price of shares purchased	<b>R145.89</b>
Exercise price	<b>R0.00</b>
Forfeiture rate	<b>5.0%</b>

Movements in the number of full share grants awarded in terms of the incentive bonus share allocation scheme	Weighted average price per share on date of the grant		Number of shares	
	June 2016	June 2015	June 2016	June 2015
Balance at the beginning of the year	<b>R160.76</b>	—	<b>488 228</b>	—
Shares granted during the year	<b>R145.89</b>	R160.76	<b>194 916</b>	492 631
Shares vested during the year	<b>R160.70</b>	—	<b>(112 933)</b>	—
Shares forfeited during the year	<b>R156.72</b>	R160.76	<b>(13 100)</b>	(4 403)
Balance at the end of the year	<b>R155.66</b>	R160.76	<b>557 111</b>	488 228

The market price of full share grants vested during the year was R159.12 per share.

Rights to full share grants awarded to participants in terms of the incentive bonus share allocation scheme outstanding at year-end are unconditional on the following dates or immediately in the case of a deceased estate:

30 September 2015	—	R160.76	—	111 127
30 September 2016	<b>R160.76</b>	R160.76	<b>114 107</b>	117 445
30 September 2017	<b>R160.76</b>	R160.76	<b>127 541</b>	130 703
30 September 2018	<b>R154.26</b>	R160.76	<b>145 630</b>	84 563
30 September 2019	<b>R151.85</b>	R160.76	<b>106 200</b>	44 390
30 September 2020	<b>R145.89</b>	—	<b>63 633</b>	—
	<b>R155.66</b>	R160.76	<b>557 111</b>	488 228



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

<b>COMPANY</b>			<b>GROUP</b>	
June 2015	June 2016		June 2016	June 2015
Rm	Rm		Rm	Rm
<b>16. RESERVES</b>				
2 936	<b>3 235</b>	Retained earnings	<b>16 865</b>	14 167
2	<b>2</b>	Other reserves (note 16.1)	<b>554</b>	1 005
2 938	<b>3 237</b>		<b>17 419</b>	15 172
<b>16.1 OTHER RESERVES</b>				
2	<b>2</b>	Capital redemption reserve	<b>2</b>	2
—	—	Share-based payments reserve	<b>290</b>	161
—	—	Equity component of convertible bonds	<b>361</b>	361
—	—	Foreign currency translation reserve	<b>(123)</b>	481
—	—	Cash flow hedging reserve	<b>24</b>	—
2	<b>2</b>		<b>554</b>	1 005

### RECONCILIATION OF CARRYING VALUES OF OTHER RESERVES

<b>GROUP</b>	<b>Share-based payments reserve</b>	<b>Equity component of convertible bonds</b>	<b>Foreign currency translation reserve</b>	<b>Cash flow hedging reserve</b>	<b>Other</b>
Rm					
Balance at June 2014	4	361	869	—	2
Share-based payments – value of employee services	131				
Modification of cash bonus arrangement transferred from provisions	26				
Foreign currency translation differences			(388)		
Group			(413)		
Associates and joint ventures			25		
Balance at June 2015	161	361	481	—	2
Share-based payments – value of employee services	140				
Modification of cash bonus arrangement transferred from provisions	7				
Realisation of share-based payment reserve	(18)				
Foreign currency translation differences			(604)		
Group			(680)		
Associates and joint ventures			76		
Gains on effective cash flow hedge, net of income tax				24	
Gains on effective cash flow hedge				33	
Related income tax				(9)	
Balance at June 2016	<b>290</b>	<b>361</b>	<b>(123)</b>	<b>24</b>	<b>2</b>



<b>COMPANY</b>			<b>GROUP</b>	
June 2015 Rm	June 2016 Rm		June 2016 Rm	June 2015 Rm
<b>17. BORROWINGS</b>				
Consisting of:				
2	—	Shoprite Holdings Ltd preference share capital (note 17.1)	—	2
—	—	Convertible bonds (note 17.2)	4 655	4 511
—	—	Standard Chartered Bank (Mauritius) Ltd (note 17.3)	222	—
—	—	Standard Bank de Angola, S.A. (note 17.4)	121	249
—	—	First National Bank of Namibia Ltd (note 17.5)	105	97
—	—	Other borrowings (note 17.6)	21	13
2	—		5 124	4 872
Analysis of total borrowings				
2	—	Non-current	102	4 305
—	—	Current	5 022	567
2	—		5 124	4 872
<b>17.1 SHOPRITE HOLDINGS LTD PREFERENCE SHARE CAPITAL</b>				
Authorised:				
0 (2015: 325 000) 5% non-convertible cumulative preference shares of R2 each				
0 (2015: 225 000) second 5% non-convertible cumulative preference shares of R2 each				
0 (2015: 1 000 000) third 5% non-convertible cumulative preference shares of R2 each				
Issued:				
1	—	0 (2015: 325 000) 5% non-convertible cumulative preference shares of R2 each (note 17.1.2)	—	1
—	—	0 (2015: 225 000) second 5% non-convertible cumulative preference shares of R2 each (note 17.1.3)	—	—
1	—	0 (2015: 500 000) third 5% non-convertible cumulative preference shares of R2 each (note 17.1.4)	—	1
2	—		—	2



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

	Number of shares	
	June 2016	June 2015
<b>17. BORROWINGS (CONTINUED)</b>		
<b>17.1 SHOPRITE HOLDINGS LTD PREFERENCE SHARE CAPITAL (CONTINUED)</b>		
<b>17.1.1 RECONCILIATION OF MOVEMENT IN NUMBER OF 6% NON-CONVERTIBLE CUMULATIVE PREFERENCE SHARES ISSUED:</b>		
Balance at the beginning of the year	—	175 000
Shares converted to 6% non-convertible cumulative redeemable preference shares	—	(175 000)
Balance at the end of the year	—	—

The Company converted its 6% non-convertible cumulative preference shares to 6% non-convertible cumulative redeemable preference shares and redeemed all the shares in this class at R2 per share during the previous year.

<b>17.1.2 RECONCILIATION OF MOVEMENT IN NUMBER OF 5% NON-CONVERTIBLE CUMULATIVE PREFERENCE SHARES ISSUED:</b>		
Balance at the beginning of the year	325 000	325 000
Shares converted to 5% non-convertible cumulative redeemable preference shares	(325 000)	—
Balance at the end of the year	—	325 000

The Company converted its 5% non-convertible cumulative preference shares to 5% non-convertible cumulative redeemable preference shares and redeemed all the shares in this class at R2.10 per share during the year under review.

<b>17.1.3 RECONCILIATION OF MOVEMENT IN NUMBER OF SECOND 5% NON-CONVERTIBLE CUMULATIVE PREFERENCE SHARES ISSUED:</b>		
Balance at the beginning of the year	225 000	225 000
Shares converted to second 5% non-convertible cumulative redeemable preference shares	(225 000)	—
Balance at the end of the year	—	225 000

The Company converted its second 5% non-convertible cumulative preference shares to second 5% non-convertible cumulative redeemable preference shares and redeemed all the shares in this class at R2.10 per share during the year under review.

<b>17.1.4 RECONCILIATION OF MOVEMENT IN NUMBER OF THIRD 5% NON-CONVERTIBLE CUMULATIVE PREFERENCE SHARES ISSUED:</b>		
Balance at the beginning of the year	500 000	500 000
Shares converted to third 5% non-convertible cumulative redeemable preference shares	(500 000)	—
Balance at the end of the year	—	500 000

The Company converted its third 5% non-convertible cumulative preference shares to third 5% non-convertible cumulative redeemable preference shares and redeemed all the shares in this class at R2.10 per share during the year under review.



<b>COMPANY</b>			<b>GROUP</b>	
June 2015 Rm	June 2016 Rm		June 2016 Rm	June 2015 Rm
<b>17. BORROWINGS (CONTINUED)</b>				
<b>17.2 CONVERTIBLE BONDS</b>				
<p>The Group has issued 6.5% convertible bonds for a principal amount of R4.7 billion (2015: R4.7 billion). The bonds mature on 3 April 2017 at their nominal value of R4.7 billion (2015: R4.7 billion) or can be converted into shares at the holders' option at the maturity date at the rate of 5 919.26 shares per R1 million. The Group holds, subject to conditions, rights on early redemption. The values of the liability component and the equity conversion component were determined at issuance of the bonds.</p> <p>The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond at initial recognition. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves, net of income taxes.</p> <p>The convertible bonds recognised in the statement of financial position is calculated as follows:</p>				
			<b>4 511</b>	4 381
		Liability component at the beginning of the year	<b>449</b>	436
		Interest expense (note 29)	<b>(305)</b>	(306)
—	—	Interest paid	<b>4 655</b>	4 511
		Liability component at the end of the year		
<p>The fair value of the liability component of the convertible bonds amounted to R4.7 billion (2015: R4.6 billion) at the statement of financial position date. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 9.5% (2015: 8.5%) and is within level 2 of the fair value hierarchy.</p>				
<b>17.3 STANDARD CHARTERED BANK (MAURITIUS) LTD</b>				
—	—	This loan is denominated in US dollar, unsecured, payable within 12 months and bears interest at an average of 2.65% p.a.	<b>222</b>	—
<b>17.4 STANDARD BANK DE ANGOLA, S.A.</b>				
—	—	This loan is denominated in US dollar, unsecured, payable after 18 months and bears interest at an average of 10.02% (2015: 9.86%) p.a.	<b>121</b>	249
<b>17.5 FIRST NATIONAL BANK OF NAMIBIA LTD</b>				
—	—	This loan is denominated in ZAR, unsecured, will be repaid within the next 24 months in equal instalments and bears interest at an average of 9.75% (2015: 8.76%) p.a.	<b>105</b>	97
<b>17.6 OTHER BORROWINGS</b>				
—	—	This loan is payable to a minority shareholder of a subsidiary of the Group, denominated in ZAR, unsecured, payable on demand and bears interest at an average of 7.14% (2015: 5.82%) p.a.	<b>21</b>	13
<b>18. PROVISIONS</b>				
		Provision for post-employment medical benefits (note 38.2)	<b>35</b>	35
		Provision for onerous lease contracts	<b>87</b>	93
		Provision for outstanding claims	<b>11</b>	4
		Provision for long term employee benefits	<b>164</b>	163
		Reinstatement provision	<b>157</b>	162
—	—		<b>454</b>	457





Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

## 18 PROVISIONS (CONTINUED)

## RECONCILIATION OF CARRYING VALUES

<b>GROUP</b>	<b>Post-employment medical benefits</b>	<b>Onerous lease contracts</b>	<b>Outstanding claims</b>	<b>Long term employee benefits</b>	<b>Reinstatement provision</b>	<b>Total</b>
Rm						
Balance at June 2014	35	51	6	192	131	415
Additional provisions	—	55	—	38	38	131
Unused amounts reversed	—	(6)	(2)	(4)	—	(12)
Re-measurements recognised directly in other comprehensive income	(1)	—	—	—	—	(1)
Utilised during the year	(2)	(9)	—	(49)	(5)	(65)
Accretion of discount	3	3	—	12	—	18
Modification of cash bonus arrangement transferred to share-based payments reserve	—	—	—	(26)	—	(26)
Exchange rate differences	—	(1)	—	—	(2)	(3)
Balance at June 2015	35	93	4	163	162	457
Additional provisions	—	61	7	41	7	116
Unused amounts reversed	—	(54)	—	(1)	(7)	(62)
Re-measurements recognised directly in other comprehensive income	(1)	—	—	—	—	(1)
Utilised during the year	(2)	(19)	—	(46)	(8)	(75)
Accretion of discount	3	9	—	14	—	26
Modification of cash bonus arrangement transferred to share-based payments reserve	—	—	—	(7)	—	(7)
Exchange rate differences	—	(3)	—	—	3	—
Balance at June 2016	35	87	11	164	157	454
Analysis of total provisions						
2015						
Non-current	35	79	4	154	49	321
Current	—	14	—	9	113	136
	35	93	4	163	162	457
2016						
Non-current	35	67	—	114	51	267
Current	—	20	11	50	106	187
	35	87	11	164	157	454
Discount rates used						
2015	9%	11%	N/A	9%	11%	
2016	10%	11%	N/A	10%	11%	



<b>COMPANY</b>			<b>GROUP</b>	
June 2015 Rm	June 2016 Rm		June 2016 Rm	June 2015 Rm
		<b>19. FIXED ESCALATION OPERATING LEASE ACCRUALS</b>		
		Operating lease payments straight-lined (refer note 23)	<b>1 106</b>	935
		Less: current (included under trade and other payables: note 20)	<b>(111)</b>	(89)
			<b>995</b>	846
		<b>20. TRADE AND OTHER PAYABLES</b>		
		Trade payables	<b>10 205</b>	11 834
3	4	Other payables and accruals	<b>4 211</b>	3 728
		Employee benefit accruals	<b>1 157</b>	1 033
		Indirect taxes payable	<b>384</b>	308
		Insurance contract allowances		
		– Unearned premiums (note 20.1)	<b>230</b>	236
		Amounts owing to joint ventures (note 20.2)	<b>45</b>	4
		Joint venture liability (note 6)	<b>56</b>	–
		Fixed escalation operating lease accruals (note 19)	<b>111</b>	89
		Cash-settled share-based payment accrual (note 15.1)	<b>182</b>	192
6	7	Shareholders for dividends	<b>9</b>	8
9	11		<b>16 590</b>	17 432
		<b>20.1 ALLOWANCE FOR UNEARNED PREMIUMS</b>		
		An analysis of the allowance for unearned premiums is set out below:		
		Balance at the beginning of the year	<b>236</b>	228
		Premiums written during the year (note 21.3)	<b>410</b>	417
		Amortisation charged to income (note 21.3)	<b>(416)</b>	(409)
		Balance at the end of the year	<b>230</b>	236
		<b>20.2 AMOUNTS OWING TO JOINT VENTURES</b>	<b>45</b>	4
		These loans are unsecured, payable on demand and bear interest at an average of 2.8% (2015: 3.9%) p.a.		
		<b>21. OTHER OPERATING INCOME</b>		
		Finance income earned	<b>327</b>	296
2 472	2 601	Investment income (note 21.1)	<b>111</b>	99
		Franchise fees received	<b>65</b>	58
		Operating lease income (note 21.2)	<b>426</b>	335
		Commissions received	<b>784</b>	695
		Premiums earned (note 21.3)	<b>416</b>	409
9	11	Other income	<b>1 582</b>	1 536
2 481	2 612		<b>3 711</b>	3 428
		<b>21.1 INVESTMENT INCOME</b>		
3	–	Interest received from subsidiaries	<b>–</b>	–
		Interest received from joint ventures	<b>13</b>	9
		Interest received from associates	<b>28</b>	14
		Interest received other	<b>43</b>	55
2 469	2 601	Dividends – subsidiaries	<b>–</b>	–
		Dividends – unlisted investments	<b>27</b>	21
2 472	2 601		<b>111</b>	99



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

<b>COMPANY</b>		<b>GROUP</b>	
June 2015 Rm	June 2016 Rm	June 2016 Rm	June 2015 Rm
<b>21. OTHER OPERATING INCOME (CONTINUED)</b>			
<b>21.2 OPERATING LEASE INCOME</b>			
The Group has entered into various operating lease agreements as the lessor of property.			
Leases on properties are contracted for periods of between 1 and 10 years (2015: 1 and 10 years). Rental comprises mainly minimum monthly payments. Rental escalations vary, but average at a rate of 7.6% (2015: 7.6%) p.a.			
<b>21.3 PREMIUMS EARNED</b>			
		<b>410</b>	417
		<b>6</b>	(8)
–	–	<b>416</b>	409
<b>22. DEPRECIATION AND AMORTISATION</b>			
		<b>1 993</b>	1 754
		<b>295</b>	208
		<b>2 288</b>	1 962
		<b>(263)</b>	(229)
–	–	<b>2 025</b>	1 733
<b>23. OPERATING LEASES</b>			
The Group has entered into various operating lease agreements on property, plant and equipment.			
Leases on properties are contracted for periods of between 5 and 10 years (2015: 5 and 10 years) with renewal options averaging a further 3 to 20 years. Rental comprises minimum monthly payments and contingent payments based on turnover levels. Turnover rentals, where applicable, average 1.89% (2015: 1.88%) of turnover. Rental escalations vary, but average at a rate of 6.65% (2015: 6.68%) p.a.			
		<b>3 573</b>	3 129
		<b>144</b>	149
		<b>3 717</b>	3 278
		<b>(231)</b>	(288)
–	–	<b>3 486</b>	2 990
Consisting of:			
		<b>3 444</b>	2 973
		<b>273</b>	305
–	–	<b>3 717</b>	3 278



<b>COMPANY</b>			<b>GROUP</b>	
June 2015 Rm	June 2016 Rm		June 2016 Rm	June 2015 Rm
		<b>24. EMPLOYEE BENEFITS</b>		
		Wages and salaries	<b>9 661</b>	8 616
		Share-based payment arrangements (note 24.1)	<b>140</b>	144
		Post-employment medical benefits (note 38.2)	<b>3</b>	3
		Retirement benefit contributions (note 38.1)	<b>552</b>	486
			<b>10 356</b>	9 249
		Disclosed as cost of sales	<b>(857)</b>	(742)
			<b>9 499</b>	8 507
		<b>24.1 SHARE-BASED PAYMENT ARRANGEMENTS</b>		
		Cash-settled share-based payments (note 15.1)	<b>—</b>	13
		Equity-settled share-based payments (note 15.2)	<b>140</b>	131
			<b>140</b>	144
		<b>24.2 LEARNERSHIP ALLOWANCES</b>		
		The Group has, during the year under review, received certain learnership allowances.		
		<b>SECTOR EDUCATIONAL TRAINING AUTHORITIES (SETA) GRANTS</b>		
		In terms of the SETA grant in South Africa the Group can recoup Skills Development Levies (SDLs) to the extent that training, as prescribed by SETA, is provided to its employees. The resulting reduction in SDLs is set out below. The net amount is taxed at 28% (2015: 28%).		
		Mandatory grants received	<b>14</b>	13
		Discretionary grants received	<b>9</b>	15
			<b>23</b>	28
		<b>25. DIRECTORS' REMUNERATION</b>		
103	<b>138</b>	Executive directors		
3	<b>3</b>	Non-executive directors		
106	<b>141</b>		<b>—</b>	<b>—</b>
(103)	<b>(138)</b>	Less: paid by subsidiaries and joint ventures		
3	<b>3</b>		<b>—</b>	<b>—</b>

The only prescribed officers of the Group are the Shoprite Holdings Ltd directors and alternate directors, as listed on the next page.

For details of equity and cash-settled share-based payment instruments issued to directors refer note 15.

Refer note 44 for details of amounts owing by directors at the end of the reporting period.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

### 25. DIRECTORS' REMUNERATION (CONTINUED)

R'000	June 2016					June 2015					
	Remu- neration	Perfor- mance bonus	Retirement and medical benefits	Other benefits	Total	Remu- neration	Perfor- mance bonus	Retirement and medical benefits	Cash retention payment*	Other benefits	Total
<b>EXECUTIVE DIRECTORS AND ALTERNATES</b>											
JW Basson	49 656	50 000	58	386	100 100	49 656	—	54	—	382	50 092
JAL Basson	1 878	1 394	321	200	3 793	1 715	1 525	293	—	215	3 748
M Bosman	2 354	2 063	539	195	5 151	2 177	1 774	498	—	174	4 623
PC Engelbrecht	4 096	2 997	755	274	8 122	3 746	2 402	690	—	241	7 079
CG Goosen	1 142	602	213	28	1 985	2 977	2 205	760	—	111	6 053
B Harisunker	3 199	1 617	—	363	5 179	3 146	1 321	421	—	253	5 141
AE Karp	4 101	1 444	857	227	6 629	3 840	1 593	800	10 000	228	16 461
EL Nel	3 249	2 134	—	299	5 682	3 008	1 983	—	—	198	5 189
BR Weyers	656	383	—	—	1 039	2 321	1 471	585	—	160	4 537
	<b>70 331</b>	<b>62 634</b>	<b>2 743</b>	<b>1 972</b>	<b>137 680</b>	<b>72 586</b>	<b>14 274</b>	<b>4 101</b>	<b>10 000</b>	<b>1 962</b>	<b>102 923</b>

R'000	June 2016		June 2015	
	Fees	Total	Fees	Total
<b>NON-EXECUTIVE DIRECTORS</b>				
JF Basson	423	423	213	213
JJ Fouché	337	337	301	301
EC Kieswetter	441	441	257	257
JA Louw	528	528	477	477
ATM Mokgokong	238	238	183	183
JG Rademeyer (retired 19.10.2015)	150	150	429	429
JA Rock	337	337	263	263
CH Wiese**	463	463	430	430
	<b>2 917</b>	<b>2 917</b>	<b>2 553</b>	<b>2 553</b>

\* Refer to the Remuneration Report contained in the Integrated Report for details of cash retention payments.

\*\* Paid to Chaircorp (Pty) Ltd in its capacity as employer.



<b>COMPANY</b>			<b>GROUP</b>	
June 2015	June 2016		June 2016	June 2015
Rm	Rm		Rm	Rm
		<b>26. OTHER OPERATING EXPENSES</b>		
—	—	Cleaning	633	517
—	—	Commission paid	578	588
—	—	Electricity and water	2 538	2 056
4	6	Fees for professional services	524	351
—	—	Motor vehicle expenses	747	668
—	—	Repairs and maintenance	1 430	1 226
—	—	Security services	1 254	1 093
10	10	Other expenses	2 032	1 612
14	16		9 736	8 111
—	—	Disclosed as cost of sales	(1 077)	(727)
14	16		8 659	7 384
		<b>27. ITEMS OF A CAPITAL NATURE</b>		
		Profit/(loss) on disposal and scrapping of property (note 3)	1	(313)
		Profit on disposal of assets held for sale (note 4)	—	39
		Loss on disposal and scrapping of plant and equipment and intangible assets (note 3 & note 9)	(59)	(96)
		Reversal of impairment of property, plant and equipment (note 3)	16	1
		Impairment of intangible assets (note 9)	(66)	(12)
		Insurance claims receivable	25	367
		Profit on disposal of investment in associate	71	—
		Profit on other investing activities	1	1
—	—		(11)	(13)
		<b>28. OPERATING PROFIT</b>		
		Determined after taking into account the following:		
		Fair value losses on financial instruments	30	3
		Policyholder claims and benefits paid	40	43
		– claims paid	33	45
		– movement in accumulated outstanding claims (note 18)	7	(2)
		<b>29. FINANCE COSTS</b>		
		Interest on convertible bonds	449	436
		Interest paid	120	69
		Interest paid to joint ventures	1	2
		Borrowing costs capitalised	(72)	(92)
—	—		498	415
		<b>30. INCOME TAX EXPENSE</b>		
		<b>30.1 CLASSIFICATION</b>		
24	13	South African income tax	1 495	1 647
—	—	Foreign income tax	503	201
24	13		1 998	1 848
		<b>30.2 CONSISTING OF:</b>		
25	13	Current income tax	2 340	1 893
(1)	—	Prior year income tax	(119)	(13)
—	—	Withholding income tax	6	17
24	13		2 227	1 897
—	—	Deferred income tax	(229)	(49)
24	13		1 998	1 848





**31. EARNINGS PER SHARE (CONTINUED)**

	June 2016 '000	June 2015 '000
Number of ordinary shares		
– In issue	534 626	534 650
– Weighted average	534 636	534 816
– Weighted average adjusted for dilution	537 423	537 432
Reconciliation of weighted average number of ordinary shares in issue during the year:		
Weighted average number of ordinary shares	534 636	534 816
Adjustments for dilutive potential of full share grants	2 787	2 616
Weighted average number of ordinary shares for diluted earnings per share	537 423	537 432
Earnings per share	<b>Cents</b>	Cents
– Basic earnings	905.4	771.2
– Diluted earnings	900.7	767.4
– Basic headline earnings	904.4	772.9
– Diluted headline earnings	899.7	769.1

**COMPANY**

June  
2015  
Cents

**June  
2016  
Cents**

**GROUP**

June  
2016  
Cents

June  
2015  
Cents

**32. DIVIDENDS PER SHARE****32.1 DIVIDENDS PER SHARE PAID**

218.0	<b>243.0</b>	No 133 paid 14 September 2015 (2015: No 131 paid 15 September 2014)	<b>243.0</b>	218.0
143.0	<b>156.0</b>	No 134 paid 22 March 2016 (2015: No 132 paid 23 March 2015)	<b>156.0</b>	143.0
361.0	<b>399.0</b>		<b>399.0</b>	361.0

**32.2 DIVIDENDS PER SHARE DECLARED**

243.0	<b>296.0</b>	No 135 payable 12 September 2016 (2015: No 133 paid 14 September 2015)	<b>296.0</b>	243.0
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Rm

**Rm****33. EXCEPTIONAL ITEMS****Rm**

Rm

Items that are material either because of their size or their nature, or that are non-recurring are considered as exceptional items and are presented within the line items to which they best relate.

The amounts detailed below are included in the statement of comprehensive income during the previous year and presented as exceptional items.

Inventory write-downs (included in cost of sales)	–	171
Property write-downs (included in items of a capital nature)	–	314
Equipment, fixtures and fittings written off (included in items of a capital nature)	–	46
	–	531

These exceptional items resulted from a fire at the Shoprite store and distribution centre in Palanca (Angola) which led to the destruction of a substantial portion of the site at the end of July 2014. The Group is insured and it is estimated that the potential loss will not be material. The gross insurance claim receivable in respect of inventory, property, fixtures and fittings destroyed amounting to R480 million at June 2015 was included in other receivables (note 12) and differed from the previous year expense due to reporting currency translations. Payments received from the insurer reduced this outstanding insurance claim receivable to R145 million at June 2016.





# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

<b>COMPANY</b>		<b>GROUP</b>	
June 2015 Rm	June 2016 Rm	June 2016 Rm	June 2015 Rm
<b>34. CASH FLOW INFORMATION</b>			
<b>34.1 NON-CASH ITEMS</b>			
		1 993	1 754
		295	208
		30	3
		46	132
		(1)	313
		—	(39)
		59	96
		(16)	(1)
		66	12
		(71)	—
		5	72
		(10)	60
		140	131
		145	171
		<b>2 681</b>	<b>2 912</b>
<b>34.2 CHANGES IN WORKING CAPITAL</b>			
		(1 995)	(1 483)
18	—	(588)	(1 048)
—	1	(748)	1 123
18	1	<b>(3 331)</b>	<b>(1 408)</b>
<b>34.3 DIVIDENDS PAID</b>			
(6)	(6)	(8)	(7)
(2 068)	(2 286)	(2 144)	(1 940)
—	—	(9)	(8)
6	7	9	8
(2 068)	(2 285)	<b>(2 152)</b>	<b>(1 947)</b>
<b>34.4 INCOME TAX PAID</b>			
(19)	7	(916)	(839)
(24)	(13)	(2 227)	(1 897)
—	—	(9)	—
(7)	(1)	428	916
(50)	(7)	<b>(2 724)</b>	<b>(1 820)</b>
<b>34.5 ACQUISITION OF OPERATIONS</b>			
<p>The Group acquired retail business operations in South Africa during the previous year on 15 July 2014 and 22 December 2014. As a result of these acquisitions, the Group is expected to expand its retail business operations in South Africa.</p>			
<p>These acquisitions had no significant impact on the Group's results.</p>			
<p>The goodwill arising from these acquisitions are attributable to acquired customer base and economies of scale expected from combining the operations of the Group and the acquired business operations. None of the goodwill recognised is expected to be deductible for income tax purposes.</p>			
<p>The assets and liabilities arising from these acquisitions were as follows:</p>			
		—	1
		—	2
		—	3



<b>COMPANY</b>		<b>GROUP</b>	
June 2015 Rm	June 2016 Rm	June 2016 Rm	June 2015 Rm
<b>35. CONTINGENT LIABILITIES</b>			
35.1	Amounts arising in the ordinary course of business relating to property and other transactions from which it is anticipated that no material liabilities will arise.	<b>146</b>	13
35.2	Shoprite Holdings Ltd and its main trading subsidiary, Shoprite Checkers (Pty) Ltd, have irrevocably and unconditionally guaranteed all amounts payable by the issuer, Shoprite Investments Ltd, in respect of convertible bonds (refer note 17.2).		
35.3	The National Credit Regulator referred Shoprite Insurance Company Ltd and Shoprite Investments Ltd to the National Consumer Tribunal in October 2015 for allegedly selling unnecessary insurance to pensioners and allegedly granting credit recklessly to consumers. The Group has obtained legal advice from senior counsel and the matter is expected to be heard by the Tribunal in May 2017.		
<p>The maximum exposure that Shoprite Insurance Company Ltd and Shoprite Investments Ltd can be liable for is an administrative fine of 10% of annual turnover of Shoprite Investments Ltd. However, at this reporting date there is insufficient information to accurately determine the potential liability amount and to assess whether it is probable that the Group will be liable to pay.</p>			
<b>36. COMMITMENTS</b>			
<b>36.1 CAPITAL COMMITMENTS</b>			
	Contracted for property, plant and equipment	<b>1 646</b>	1 297
	Contracted for intangible assets	<b>36</b>	298
	Authorised by directors, but not contracted for	<b>4 119</b>	2 062
–	–	<b>5 801</b>	3 657
Funds to meet this expenditure will be provided from the Group's own resources and borrowings.			
<b>36.2 OPERATING LEASE COMMITMENTS</b>			
Future minimum lease payments under non-cancellable operating leases:			
	– Not later than one year	<b>3 215</b>	2 387
	– Later than one year not later than five years	<b>10 880</b>	8 126
	– Later than five years	<b>14 013</b>	6 827
		<b>28 108</b>	17 340
	Less: fixed escalation operating lease accruals (note 19)	<b>(1 106)</b>	(935)
–	–	<b>27 002</b>	16 405
<b>36.3 OPERATING LEASE RECEIVABLES</b>			
Future minimum lease payments receivable under non-cancellable operating leases:			
	– Not later than one year	<b>257</b>	259
	– Later than one year not later than five years	<b>416</b>	380
	– Later than five years	<b>85</b>	34
		<b>758</b>	673
	Less: fixed escalation operating lease accruals (note 10)	<b>(37)</b>	(10)
–	–	<b>721</b>	663
<b>37. BORROWING POWERS</b>			
In terms of the Memorandum of Incorporation of the Company the borrowing powers of Shoprite Holdings Ltd are unlimited.			





**COMPANY**

June  
2015  
Rm

June  
2016  
Rm

**GROUP**

June  
2016  
Rm

June  
2015  
Rm

**38. POST-EMPLOYMENT BENEFITS (CONTINUED)****38.2 MEDICAL BENEFITS (CONTINUED)****38.2.3 THE SENSITIVITY OF THE POST-EMPLOYMENT MEDICAL BENEFIT LIABILITY TO CHANGES IN THE SIGNIFICANT ACTUARIAL ASSUMPTIONS IS AS FOLLOWS:**

Increase in the post-employment medical benefit liability resulting from a 1% increase in the assumed health-care cost inflation	5	5
Decrease in the post-employment medical benefit liability resulting from a 1% decrease in the assumed health-care cost inflation	4	4

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the post-employment medical benefit liability to significant actuarial assumptions, the same method has been applied as when calculating the post-employment medical benefit liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

**39. FINANCIAL INSTRUMENTS BY CATEGORY****FINANCIAL ASSETS AS PER STATEMENT OF FINANCIAL POSITION**

Loans and receivables			Loans and receivables	
—	—	Loans and receivables	869	606
—	—	Instalment sales	1 480	1 557
—	—	Trade receivables	1 748	1 604
—	—	Other receivables excluding prepayments and taxes receivable	1 079	1 106
—	—	Amounts owing by joint ventures	318	164
2 603	1 852	Amounts owing by subsidiaries	—	—
6	161	Cash and cash equivalents	6 784	7 061
2 609	2 013		12 278	12 098

The nominal value less estimated credit adjustments of trade and other receivables are assumed to approximate their fair values. The fair value is based on discounted cash flows and is within level 3 of the fair value hierarchy.

The fair value of amounts owing by employees included in loans and receivables amounted to R217.0 million (2015: R216.0 million) at the statement of financial position date. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 10.5% (2015: 9.3%) and is within level 2 of the fair value hierarchy.

The book value of all other financial assets approximate the fair values thereof.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

### 39. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	Financial liabilities at amortised cost	Liabilities at fair value through profit and loss	Total
<b>GROUP</b>			
Rm	June 2016		
<b>FINANCIAL LIABILITIES AS PER STATEMENT OF FINANCIAL POSITION</b>			
Borrowings	5 124		5 124
Reinstatement provision	157		157
Trade payables	10 205		10 205
Other payables and accruals excluding taxes payable and employee benefit accruals	4 211		4 211
Amounts owing to joint ventures	45		45
Derivative financial instruments		32	32
Bank overdrafts	2 965		2 965
Shareholders for dividends	9		9
	<b>22 716</b>	<b>32</b>	<b>22 748</b>
Rm	June 2015		
<b>FINANCIAL LIABILITIES AS PER STATEMENT OF FINANCIAL POSITION</b>			
Borrowings	4 872		4 872
Reinstatement provision	162		162
Trade payables	11 834		11 834
Other payables and accruals excluding taxes payable and employee benefit accruals	3 728		3 728
Amounts owing to joint ventures	4		4
Derivative financial instruments		2	2
Bank overdrafts	3		3
Shareholders for dividends	8		8
	<b>20 611</b>	<b>2</b>	<b>20 613</b>
<b>COMPANY</b>			
Rm	June 2016		
<b>FINANCIAL LIABILITIES AS PER STATEMENT OF FINANCIAL POSITION</b>			
Other payables and accruals excluding taxes payable and employee benefit accruals	4		4
Shareholders for dividends	7		7
	<b>11</b>	<b>—</b>	<b>11</b>
Rm	June 2015		
<b>FINANCIAL LIABILITIES AS PER STATEMENT OF FINANCIAL POSITION</b>			
Borrowings	2		2
Other payables and accruals excluding taxes payable and employee benefit accruals	3		3
Shareholders for dividends	6		6
	<b>11</b>	<b>—</b>	<b>11</b>

The nominal value less estimated credit adjustments of trade and other payables are assumed to approximate their fair values. The fair value is based on discounted cash flows and is within level 3 of the fair value hierarchy.

The fair value of the liability component of the convertible bonds included in borrowings amounted to R4.7 billion (2015: R4.6 billion) at the statement of financial position date. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 9.5% (2015: 8.5%) and is within level 2 of the fair value hierarchy.

The book value of all other financial liabilities approximate the fair values thereof.



## 40. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 40.1 FINANCIAL ASSETS

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

<b>GROUP</b>	<b>Trade receivables</b>	<b>Derivative financial assets</b>	<b>Cash and cash equivalents</b>	<b>Total</b>
Rm	June 2016			
Gross amounts of recognised financial assets	3 843	—	12 871	16 714
Gross amounts of recognised financial liabilities set off in the statement of financial position	(2 095)	—	(6 087)	(8 182)
Net amounts of financial assets presented in the statement of financial position	1 748	—	6 784	8 532
Related amounts not set off in the statement of financial position*				
Financial instruments	(102)	—	—	(102)
Net amounts	1 646	—	6 784	8 430
Rm	June 2015			
Gross amounts of recognised financial assets	3 617	2	8 679	12 298
Gross amounts of recognised financial liabilities set off in the statement of financial position	(2 013)	(2)	(1 618)	(3 633)
Net amounts of financial assets presented in the statement of financial position	1 604	—	7 061	8 665
Related amounts not set off in the statement of financial position*				
Financial instruments	(71)	—	—	(71)
Net amounts	1 533	—	7 061	8 594

### 40.2 FINANCIAL LIABILITIES

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

<b>GROUP</b>	<b>Trade payables</b>	<b>Derivative financial liabilities</b>	<b>Bank overdrafts</b>	<b>Total</b>
Rm	June 2016			
Gross amounts of recognised financial liabilities	12 300	32	9 052	21 384
Gross amounts of recognised financial assets set off in the statement of financial position	(2 095)	—	(6 087)	(8 182)
Net amounts of financial liabilities presented in the statement of financial position	10 205	32	2 965	13 202
Related amounts not set off in the statement of financial position*				
Financial instruments	(102)	—	—	(102)
Net amounts	10 103	32	2 965	13 100
Rm	June 2015			
Gross amounts of recognised financial liabilities	13 847	4	1 621	15 472
Gross amounts of recognised financial assets set off in the statement of financial position	(2 013)	(2)	(1 618)	(3 633)
Net amounts of financial liabilities presented in the statement of financial position	11 834	2	3	11 839
Related amounts not set off in the statement of financial position*				
Financial instruments	(71)	—	—	(71)
Net amounts	11 763	2	3	11 768

\* For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when the counterparty fails to timeously comply with its obligations.



Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

<b>COMPANY</b>		<b>GROUP</b>	
June 2015 Rm	June 2016 Rm	June 2015 Rm	June 2015 Rm

#### 41. FAIR VALUE DISCLOSURES

All financial instruments measured at fair value are classified using a three-tiered fair value hierarchy that reflects the significance of the inputs used in determining the measurement. The hierarchy is as follows:

Level 1 – Measurements in whole or in part are done by reference to unadjusted, quoted prices in an active market for identical assets and liabilities. Quoted prices are readily available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 – Measurements are done by reference to inputs other than quoted prices that are included in level 1. These inputs are observable for the financial instrument, either directly (i.e. as prices) or indirectly (i.e. from derived prices).

Level 3 – Measurements are done by reference to inputs that are not based on observable market data.

The Group's derivatives – being forward foreign exchange rate contracts – are measured at fair value and classified at level 2.

There were no transfers between levels 1 and 2 during the year.

#### 42. FINANCIAL RISK MANAGEMENT

##### 42.1 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange rate contracts as economic hedges, to hedge certain exposures.

Financial risk management is carried out by a central treasury department under policies approved by the board of directors. The treasury department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange rate risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.



**COMPANY**

June  
2015  
Rm

June  
2016  
Rm

**GROUP**

June  
2016  
Rm

June  
2015  
Rm

**42. FINANCIAL RISK MANAGEMENT (CONTINUED)****42.1 FINANCIAL RISK FACTORS (CONTINUED)****42.1.1 MARKET RISK****A) CURRENCY RISK**

The Group operates internationally and is exposed to currency risk arising from various currency exposures. The treasury department hedges the Group's net position in each foreign currency by using call deposits in foreign currencies and derivative financial instruments in the form of forward foreign exchange rate contracts for all cumulative foreign commitments of three months or more. Forward foreign exchange rate contracts are not used for speculative purpose. These instruments are not designated as hedging instruments for purposes of accounting.

Currency exposure arising from the net monetary assets in individual countries, held in currencies other than the functional currency of the Group, are managed primarily through converting cash and cash equivalents not required for operational cash flows to US dollar, subject to exchange control regulations. The US dollar is the preferred currency due to its history of stability, liquidity and availability in most markets.

Material concentrations of currency risk exists within the Group's cash and cash equivalents. The net cash and cash equivalents are denominated in the following currencies:

6	161	South Africa rand	998	4 953
—	—	US dollar	684	898
—	—	Zambia kwacha	216	271
—	—	Malawi kwacha	34	13
—	—	Angola kwanza	1 202	190
—	—	Botswana pula	64	59
—	—	Mauritius rupee	65	28
—	—	Nigeria naira	92	49
—	—	Namibia dollar	107	109
—	—	Swaziland emalangeni	57	96
—	—	Lesotho maloti	102	151
—	—	Mozambique metical	75	170
—	—	Other currencies	123	71
6	161		3 819	7 058

The Group does not have significant foreign creditors as most inventory imports are prepaid.

Where material concentrations of currency risk exists within the Group a sensitivity analysis was performed to calculate what the increase/decrease in profit for the year would have been if the various individual currencies strengthened or weakened against the ZAR and the USD. At 3 July 2016 the total possible increase in Group post-tax profit, calculated for all estimated currency movements, was R261 million with the AON/USD exchange rate (with an expected 19.5% incline) contributing R142 million to this number. At 30 June 2015 the total possible decrease in Group post-tax profit, calculated for all estimated currency movements, was R152 million with the AON/USD exchange rate (with an expected 10.5% decline) contributing R125 million to this number. These changes had no material effect on the Group's equity.





Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

COMPANY		GROUP	
June 2015	June 2016	June 2016	June 2015
Rm	Rm	Rm	Rm

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.1 FINANCIAL RISK FACTORS (CONTINUED)

#### 42.1.1 MARKET RISK (CONTINUED)

##### A) CURRENCY RISK (CONTINUED)

The amounts were calculated with reference to the financial instruments, exposed to currency risk at the reporting date and does not reflect the Group's exposure throughout the reporting period as these balances may vary significantly due to the self funding nature of the Group's required working capital and cyclical nature of cash received from sale of merchandise and payment to trade and other payables. The possible currency movements were determined based on management's best estimates taking into account prevailing economic and market conditions and future expectations.

The Group has a number of investments in foreign subsidiaries, whose net assets are exposed to foreign currency translation risk. Although not subject to market risk, the following constituted significant concentrations of net monetary assets/ (liabilities), including short term surplus funds, in currencies other than the reporting currency as at 30 June, subject to translation risk.

##### FOREIGN CURRENCY

Angola kwanza	1 413	696
Botswana pula	(114)	88
DRC franc	62	24
Euro	(342)	(86)
Ghana cedi	65	2
Madagascar ariary	(22)	(5)
Malawi kwacha	52	4
Mauritius rupee	211	41
Mozambique metical	138	195
Nigeria naira	(159)	(208)
Uganda shilling	21	(3)
US dollar	38	582
Zambia kwacha	(17)	(160)

##### NET INVESTMENT HEDGE

The Group's US dollar denominated borrowing amounting to R121 million [\$8 million] (2015: R249 million [\$20 million]) is designated as a hedge of a proportion of the net investment in the Group's US dollar denominated subsidiary. The fair value of the borrowing at the statement of financial position date approximates its book value (refer to note 17.4). The foreign exchange loss of R89.4 million (2015: R41.6 million) on translation of the borrowing at the reporting date is recognised in other comprehensive income and accumulated in the foreign currency translation reserve, in shareholders' equity. No ineffectiveness was recognised in the statement of comprehensive income.



**COMPANY**

June  
2015  
Rm

June  
2016  
Rm

**GROUP**

June  
2016  
Rm

June  
2015  
Rm

**42. FINANCIAL RISK MANAGEMENT (CONTINUED)****42.1 FINANCIAL RISK FACTORS (CONTINUED)****42.1.1 MARKET RISK (CONTINUED)****A) CURRENCY RISK (CONTINUED)****CASH FLOW HEDGES**

The Group has United States dollar denominated firm commitments to pay \$8.65 million to acquire an aircraft from a foreign supplier. The risk of changes in the ZAR/USD spot exchange rate resulting in changes in the cash flows in ZAR terms are hedged. The payments are expected to be made in the 2017 calendar year as indicated below:

	\$
First quarter of 2017 – second deposit	250 000
First quarter of 2017 – third deposit	1 000 000
Fourth quarter of 2017 – final deposit	7 400 000
	8 650 000

At statement of financial position date, the Group held R129 million (\$8.65 million) in a customer foreign currency account. This total comprises of three individual designations which are designated as hedges of the three expected future payments, for which the Group has firm commitments. The fair value of the customer foreign currency account at the statement of financial position date approximates its book value.

The foreign exchange gain of R33 million on translation of the customer foreign currency account at the reporting date is recognised in other comprehensive income and accumulated in the cash flow hedging reserve, in shareholders' equity. No ineffectiveness was recognised in the statement of comprehensive income.

**B) CASH FLOW AND FAIR VALUE INTEREST RATE RISK**

The Group's interest rate risk arises mainly from daily call accounts and bank overdrafts. These carry interest at rates fixed on a daily basis and expose the Group to cash flow interest rate risk. The Group analyses this interest rate exposure on a dynamic basis. Daily cash flow forecasts are done and combined with interest rates quoted on a daily basis. This information is then taken into consideration when reviewing refinancing/reinvesting and/or renewal/cancellation of existing positions and alternative financing/investing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for cash/borrowings that represent the major interest-bearing positions. The weighted average effective interest rate on call accounts was 7.3% (2015: 6.2%).

The interest rate on individual instalment sale receivables (refer note 12) is fixed and expose the Group to fair value interest rate risk which is mitigated by charging appropriate margins and the fact that the maximum term of these contracts are 24 months.

For exposure to interest rate risk on other monetary items refer to the following:

- Loans and receivables: note 7
- Amounts owing by joint ventures: note 12
- Borrowings: note 17
- Amounts owing to joint ventures: note 20



Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

<b>COMPANY</b>		<b>GROUP</b>	
June 2015	June 2016	June 2016	June 2015
Rm	Rm	Rm	Rm

## **42. FINANCIAL RISK MANAGEMENT (CONTINUED)**

### **42.1 FINANCIAL RISK FACTORS (CONTINUED)**

#### **42.1.1 MARKET RISK (CONTINUED)**

##### **B) CASH FLOW AND FAIR VALUE INTEREST RATE RISK (CONTINUED)**

Where material concentrations of interest rate risk exists within the Group a sensitivity analysis was performed to calculate what the increase/decrease in profit for the year would have been if the various individual interest rates the Group's financial instruments are subject to strengthened or weakened. At 3 July 2016 the total possible increase in Group post-tax profit, calculated for all estimated interest rate movements, was R9.4 million. The estimated increase of 50 basis points in the South African prime rate would have resulted in a possible increase in Group post-tax profit of R9.2 million. At 30 June 2015 the total possible decrease in Group post-tax profit, calculated for all estimated interest rate movements, was R9 million. The estimated increase of 75 basis points in the South African prime rate would have resulted in a possible decrease in Group post-tax profit of R8 million. These changes had no material effect on the Group's equity.

The amounts were calculated with reference to the financial instruments exposed to interest rate risk at the reporting date and does not reflect the Group's exposure throughout the reporting period as these balances may vary significantly due to the self funding nature of the Group's required working capital and cyclical nature of cash received from sale of merchandise and payment to trade and other payables. The possible interest rate movements were determined based on management's best estimates taking into account prevailing economic and market conditions and future expectations.

#### **42.1.2 CREDIT RISK**

Credit risk is managed on a group basis. Potential concentration of credit risk consists primarily of cash and cash equivalents, trade and other receivables, financial guarantees and investments.

Funds are only invested with South African financial institutions with a minimum Moody's short term credit rating of P-2 and a minimum Moody's long term rating of Baa2. For financial institutions registered outside South Africa the required minimum Moody's short term and long term credit ratings are P-1 and Aa3 respectively. Due to the Group's international operational requirements it is forced to transact with financial institutions in certain countries where independent internationally accredited credit ratings are not available. In these instances the Group's exposure to credit risk at each of these financial institutions are evaluated by management on a case by case basis. Cash balances deposited with these financial institutions are kept to an operational minimum and are transferred, subject to exchange control regulations and available suitable foreign currency, to financial institutions with acceptable credit ratings. The Group has policies that limit the amount of credit exposure to any one financial institution.



**COMPANY**

June  
2015  
Rm

June  
2016  
Rm

**GROUP**

June  
2016  
Rm

June  
2015  
Rm

**42. FINANCIAL RISK MANAGEMENT (CONTINUED)****42.1 FINANCIAL RISK FACTORS (CONTINUED)****42.1.2 CREDIT RISK (CONTINUED)**

Sales to retail customers are settled in cash or using debit and credit cards. Except for the total exposure represented by the respective statement of financial position items, the Group has no other significant concentration of credit risk. Accounts receivable comprise a wide-spread client base and the Group has policies in place to ensure that all sales of goods and services on credit are made to customers with an appropriate credit history. These policies include reviewing the Group's own credit history with the customer, verifying the credit history with an external credit bureau, as well as a formalised application process where the creditworthiness of the customer is assessed. The Group also obtains security from its franchisees.

The Company has guaranteed various revolving credit facilities of R12.3 billion (2015: R12.2 billion) and convertible bonds of R5.0 billion (2015: R5.3 billion) in Shoprite Investments Ltd. The guarantees have also been disclosed as part of the Company's liquidity risk below. Financial guarantees are kept to an operational minimum and reassessed regularly. The maximum potential exposure to credit risk under financial guarantee contracts amounts to R17.3 billion (2015: R17.5 billion).

For exposure to credit risk on other monetary items refer to the following:

- Investment in associates and joint ventures: note 6
- Loans and receivables: note 7
- Trade and other receivables: note 12
- Trade and other payables: note 20

The table below shows the cash invested at the statement of financial position date at financial institutions grouped per Moody's short term credit rating of the financial institutions.

		<b>RATING</b>		
6	<b>161</b>	P-1	<b>5 819</b>	6 252
—	—	P-2	<b>104</b>	26
—	—	No rating available	<b>572</b>	417
—	—	Cash on hand and in transit	<b>289</b>	366
6	<b>161</b>	Total cash and cash equivalents	<b>6 784</b>	7 061



Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.1 FINANCIAL RISK FACTORS (CONTINUED)

#### 42.1.3 LIQUIDITY RISK

The risk of illiquidity is managed by using cash flow forecasts, maintaining adequate unutilised banking facilities (2016: R3.6 billion; 2015: R5.9 billion) and unlimited borrowing powers. All unutilised facilities are controlled by the Group's treasury department in accordance with a treasury mandate as approved by the board of directors.

The Group's derivative financial instruments that will be settled on a gross basis are detailed in note 13. The amounts disclosed are the contractual undiscounted cash flows. All balances are due within 12 months and equal their carrying values, as the impact of discounting is not significant.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows based on the earliest date on which the Group can be required to pay and include both interest and principal cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

<b>GROUP</b>	<b>Book value</b>	<b>Total</b>	<b>Not later than one year</b>	<b>Between one and two years</b>
Rm		<b>June 2016</b>		
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>				
Borrowings*	5 124	5 469	5 469	
Reinstatement provision	157	157	157	
Trade payables	10 205	10 205	10 205	
Other payables and accruals excluding taxes payable and employee benefit accruals	4 211	4 211	4 211	
Amounts owing to joint ventures	45	45	45	
Bank overdrafts	2 965	2 965	2 965	
Shareholders for dividends	9	9	9	
Financial commitment	—	954	954	
	<b>22 716</b>	<b>24 015</b>	<b>24 015</b>	<b>—</b>
Rm		<b>June 2015</b>		
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>				
Borrowings*	4 872	5 666	666	5 000
Reinstatement provision	162	162	162	
Trade payables	11 834	11 834	11 834	
Other payables and accruals excluding taxes payable and employee benefit accruals	3 728	3 728	3 728	
Amounts owing to joint ventures	4	4	4	
Bank overdrafts	3	3	3	
Shareholders for dividends	8	8	8	
Financial commitment	—	303	303	
	<b>20 611</b>	<b>21 708</b>	<b>16 708</b>	<b>5 000</b>

\* Liquidity risk resulting from the settlement of the 6.5% convertible bonds is considered to be acceptable as these bonds are expected to be converted into ordinary shares and will most likely not lead to cash outflows. However, as conversion is at the option of the holders, the table above reflects the contractual cash flows the Group would have to pay if all the bonds were not converted.



## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 42.1 FINANCIAL RISK FACTORS (CONTINUED)

#### 42.1.3 LIQUIDITY RISK (CONTINUED)

<b>COMPANY</b>	<b>Book value</b>	<b>Total</b>	<b>Not later than one year</b>	<b>Between one and two years</b>
Rm		<b>June 2016</b>		
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>				
Other payables and accruals excluding taxes payable and employee benefit accruals	4	4	4	
Shareholders for dividends	7	7	7	
Financial guarantees	—	17 315	17 315	
	<b>11</b>	<b>17 326</b>	<b>17 326</b>	—

Rm		<b>June 2015</b>		
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>				
Borrowings	2	2	2	
Other payables and accruals excluding taxes payable and employee benefit accruals	3	3	3	
Shareholders for dividends	6	6	6	
Financial guarantees	—	17 482	12 476	5 006
	<b>11</b>	<b>17 493</b>	<b>12 487</b>	<b>5 006</b>

### 42.2 INSURANCE RISK

The Group underwrites insurance products with the following terms and conditions:

- Credit protection which covers the risk of the customer being unable to settle the terms of the credit agreement as a result of death, disability or qualifying retrenchment.
- All risk cover which covers the repair or replacement of the product due to accidental loss or damage within the terms and the conditions of the policy, and extended guarantees which covers the repair or replacement of faulty products as an extension of the suppliers' guarantees.

The risk under any one insurance contract is the possibility that an insured event occurs as well as the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and unpredictable.

Underwriting risk is the risk that the Group's actual exposure to short term risks in respect of policy-holding benefits will exceed prudent estimates. Where appropriate, the above risks are managed by senior management and directors.

Within the insurance process, concentration risk may arise where a particular event or series of events could impact heavily on the Group's resources. The Group has not formally monitored the concentration risk; however, it has mitigated against concentration risk by structuring event limits in every policy to ensure that the probability of underwriting loss is minimised. Therefore the Group does not consider its concentration risk to be high.

## 43. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Total capital is considered to be equity as shown in the statement of financial position.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The gearing ratio is calculated as interest-bearing borrowings divided by equity and was 23.94% (2015: 25.43%) on the statement of financial position date.

The Group is currently maintaining a two times dividend cover based on headline earnings per share.



Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2016

#### 44. RELATED PARTY INFORMATION

Related party relationships exist between the Company, subsidiaries, directors, as well as their close family members, and key management of the Company.

During the year under review, in the ordinary course of business, certain companies within the Group entered into transactions with each other. All these intergroup transactions have been eliminated in the annual financial statements on consolidation.

Shoprite Investments Ltd has issued 6.5% senior unsecured guaranteed convertible bonds for a principal amount of R4.7 billion (2015: R4.7 billion). The bonds mature on 3 April 2017 at their nominal value of R4.7 billion (2015: R4.7 billion) or can be converted into ordinary shares of Shoprite Holdings Ltd. Shoprite Holdings Ltd and Shoprite Checkers (Pty) Ltd have irrevocably and unconditionally given its guarantee to the Trustee for the benefit of the bondholders for all amounts payable by the issuer in respect of the convertible bonds (refer note 17.2).

Non-executive director, CH Wiese, is a director and indirect beneficial shareholder of Titan Share Dealers (Pty) Ltd, which holds an option to purchase R1.7 billion in nominal amount of convertible bonds issued by Shoprite Investments Ltd from Rand Merchant Bank, a division of FirstRand Bank Ltd. The option strike price is the principal amount plus any accrued interest outstanding for the period. The option is exercisable at any time until maturity of the convertible bonds in April 2017.

Non-executive director, CH Wiese, is an employee of Chaircorp (Pty) Ltd, a management company that renders advisory services to Shoprite Checkers (Pty) Ltd in return for an annual fee. An amount of R10.3 million (2015: R9.0 million) was paid to Chaircorp (Pty) Ltd for advisory services to Shoprite Checkers (Pty) Ltd.

Details of the remuneration of directors, and equity- and cash-settled share-based payment instruments issued to directors, are disclosed in notes 15 and 25.

Details of the directors' interests in ordinary and non-convertible, non-participating, no par value deferred shares of the Company are provided in the directors' report.

Directors and key management participants to the executive share plan hold Shoprite Investments Ltd convertible bonds which they purchased from Shoprite Checkers (Pty) Ltd using financing from Shoprite Investments Ltd. These transactions were concluded at market-related prices. The terms and conditions of the schemes under the executive share plan are set out in the Remuneration Report contained in the Integrated Report. The repayment terms of amounts owing to Shoprite Investments Ltd are disclosed in note 7.2.

The number of Shoprite Investments Ltd 6.5% convertible bonds held by directors and key management and the year-end balances relating to amounts owing by directors and key management at the end of the reporting period in terms of the executive share plan are set out below:

	Number of convertible bonds		Loans and receivables	
	June 2016	June 2015	June 2016 Rm	June 2015 Rm
Directors and key management				
JAL Basson	440	440	5	5
M Bosman	560	560	7	7
PC Engelbrecht	890	890	10	10
AE Karp	670	670	8	8
Other key management personnel	14 240	14 460	166	169
	<b>16 800</b>	<b>17 020</b>	<b>196</b>	<b>199</b>
Key management personnel compensation				
Short term employee benefits			276	217
Post-employment benefits			15	16
Share-based payments			—	3
Directors' fees			3	3
			<b>294</b>	<b>239</b>



**COMPANY**

June  
2015  
Rm

June  
2016  
Rm

**GROUP**

June  
2016  
Rm

June  
2015  
Rm

**44. RELATED PARTY INFORMATION (CONTINUED)**

During the year key management have purchased goods at the Group's usual prices less a 15% discount. Discount ranging from 5% to 15% is available to all permanent full-time and flexi-time employees.

During the financial year under review, in the ordinary course of business, certain companies in the Group entered into transactions with certain entities in which directors JW Basson, CH Wiese, EL Nel and JA Louw, or their direct family members, have a significant influence. These transactions were concluded at what management believe to be market-related prices and are insignificant in terms of the Group's total operations for the year.

These transactions and related balances were as follows:

Sale of merchandise	—	25
Purchase of merchandise	420	483
Services rendered by the Group	1	1
Utilisation of services	21	13
Interest paid by the Group	1	—
Year-end balances owed to the Group	7	4
Year-end balances owed by the Group	55	18

The Group has a 50% interest in the Hungry Lion joint venture (refer note 6.2). The other 50% is indirectly held by alternate director JAL Basson.

The following transactions took place between the Hungry Lion joint venture and the Group during the year under review:

Administration fees paid to the Group	8	7
Rent paid to the Group	3	2
Interest paid to the Group	13	9
Interest paid to the joint venture	1	2

The year-end balances relating to the transactions with the joint venture are disclosed in notes 12.5 and 20.2.

Details of the Company's interests in subsidiaries are provided in note 5 and annexure A.

The Company paid dividends of R141 million (2015: R128 million) to Shoprite Checkers (Pty) Ltd during the year under review.

The Company received the following from its subsidiaries:

2	2	Annual administration fee received from Shoprite Checkers (Pty) Ltd
2 269	2 451	Dividends received from Shoprite Checkers (Pty) Ltd
200	150	Dividends received from Shoprite Insurance Company Ltd
3	5	Guarantee fee received from Shoprite International Ltd
3	—	Interest received from Shoprite Investments Ltd





## ANNEXURE A – INTERESTS IN SUBSIDIARIES

Shoprite Holdings Ltd and its Subsidiaries as at June 2016

	Country of incorporation and place of business	Issued ordinary and preference share capital and premium Rm	Percentage shares held by Group %	Investment in shares		Amount owing by	
				June 2016	June 2015	June 2016	June 2015
				Rm	Rm	Rm	Rm
<b>DIRECT SUBSIDIARIES</b>							
Shoprite Checkers (Pty) Ltd	South Africa	1 129	100	174	174	1 847	2 600
Shoprite Investments Ltd	South Africa	100	100	100	100	—	—
Shoprite International Ltd	Mauritius	5 613	100	5 612	4 711	5	3
Shoprite Insurance Company Ltd	South Africa	20	100	20	20	—	—
				<b>5 906</b>	<b>5 005</b>	<b>1 852</b>	<b>2 603</b>

### INDIRECT SUBSIDIARIES

Africa Supermarkets Ltd	Zambia*	229	100				
Checkers Chatsworth Ltd**	South Africa	2	48				
Computicket (Pty) Ltd	South Africa	69	100				
Medirite (Pty) Ltd	South Africa	500	100				
Megasave Trading (Pvt) Ltd	India*	118	100				
Mercado Fresco de Angola Lda	Angola*	—	100				
OK Bazaars (Lesotho) (Pty) Ltd**	Lesotho*	—	50				
OK Bazaars (Namibia) Ltd	Namibia*	1	100				
OK Bazaars (Swaziland) (Pty) Ltd	Swaziland*	—	100				
OK Bazaars (Venda) Ltd**	South Africa	2	50				
Shoprite Mozambique Lda	Mozambique*	56	100				
Retail Holdings Botswana (Pty) Ltd	Botswana*	165	100				
Retail Supermarkets Nigeria Ltd	Nigeria*	680	100				
Royal Retail (Pty) Ltd**	South Africa	—	75				
Sentra Namibia Ltd	Namibia*	6	100				
Shophold (Mauritius) Ltd	Mauritius*	189	100				
Shoprite (Mauritius) Ltd	Mauritius*	266	100				
Shoprite Angola Imobiliaria Lda	Angola*	—	100				
Shoprite Checkers Uganda Ltd	Uganda*	148	100				
Shoprite Egypt for Internal Trade SAE	Egypt*	42	100				
Shoprite Ghana (Pty) Ltd	Ghana*	108	100				
Shoprite Lesotho (Pty) Ltd	Lesotho*	—	100				
Shoprite Madagascar S.A.	Madagascar*	145	100				
Shoprite Namibia (Pty) Ltd	Namibia*	—	100				
Shoprite RDC SPRL	DRC*	82	100				
Shoprite Supermercados Lda	Angola*	—	100				
Shoprite Trading Ltd	Malawi*	127	100				

\* Investments in subsidiaries outside South Africa are converted at historical exchange rates.

\*\* Non-controlling interests in respect of these subsidiaries are not material.

### SIGNIFICANT RESTRICTIONS

Local currency cash and short-term deposits of R1.3 billion (2015: R240 million) are held in Angola and Nigeria (2015: Angola and Nigeria) and are subject to onerous local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

### NOTE:

General information in respect of subsidiaries is set out in respect of only those subsidiaries of which the financial position or results are material for a proper appreciation of the affairs of the Group. A full list of subsidiaries is available on request.



## ANNEXURE B – SHAREHOLDER ANALYSIS

Shoprite Holdings Ltd as at June 2016

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<b>SHAREHOLDER SPREAD</b>	<b>No of Shareholdings</b>	<b>%</b>	<b>No of Shares</b>	<b>%</b>
1 – 1 000 shares	21 757	77.76	6 779 532	1.18
1 001 – 10 000 shares	5 209	18.62	14 440 794	2.52
10 001 – 100 000 shares	745	2.66	22 956 494	4.01
100 001 – 1 000 000 shares	191	0.68	61 451 014	10.73
Over 1 000 000 shares	78	0.28	467 244 126	81.56
<b>Totals</b>	<b>27 980</b>	<b>100.00</b>	<b>572 871 960</b>	<b>100.00</b>

<b>DISTRIBUTION OF SHAREHOLDERS</b>	<b>No of Shareholdings</b>	<b>%</b>	<b>No of Shares</b>	<b>%</b>
Banks	232	0.83	245 868 663	42.91
Brokers	47	0.17	7 717 276	1.35
Close Corporations	226	0.81	956 058	0.17
Endowment Funds	159	0.57	1 154 432	0.20
Government	5	0.02	118 807	0.02
Individuals	21 201	75.75	23 512 427	4.10
Insurance Companies	128	0.46	9 021 098	1.57
Investment Companies	18	0.06	3 996 358	0.70
Medical Aid Schemes	31	0.11	222 746	0.04
Mutual Funds	318	1.14	28 466 422	4.97
Other Corporations	175	0.63	204 120	0.04
Private Companies	647	2.31	75 487 751	13.18
Public Companies	17	0.06	895 073	0.16
Retirement Funds	273	0.98	89 436 922	15.61
Treasury Shares	5	0.02	35 436 572	6.19
Trusts	4 498	16.08	50 377 235	8.79
<b>Totals</b>	<b>27 980</b>	<b>100.00</b>	<b>572 871 960</b>	<b>100.00</b>

<b>PUBLIC/NON-PUBLIC SHAREHOLDERS</b>	<b>No of Shareholdings</b>	<b>%</b>	<b>No of Shares</b>	<b>%</b>
<b>Non-Public Shareholders</b>	<b>60</b>	<b>0.21</b>	<b>139 235 185</b>	<b>24.30</b>
Directors of the Company*	55	0.19	103 798 613	18.11
Treasury Shares	5	0.02	35 436 572	6.19
<b>Public Shareholders</b>	<b>27 920</b>	<b>99.79</b>	<b>433 636 775</b>	<b>75.70</b>
<b>Totals</b>	<b>27 980</b>	<b>100.00</b>	<b>572 871 960</b>	<b>100.00</b>

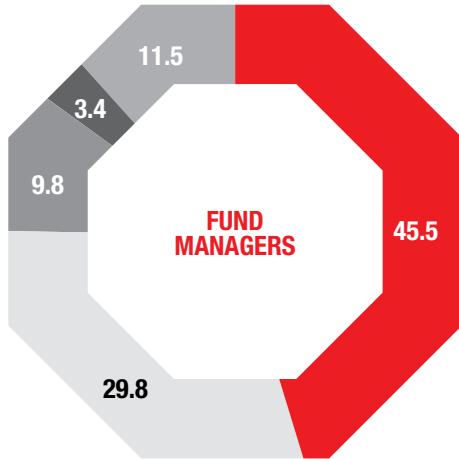
\* Includes shares held by directors in Shoprite Holdings Ltd Executive Share Plan.

<b>BENEFICIAL SHAREHOLDERS HOLDING 1% OR MORE</b>	<b>No of Shares</b>	<b>%</b>
Wiese, CH	91 252 531	15.93
Government Employees Pension Fund	63 317 013	11.05
Shoprite Checkers (Pty) Ltd	35 436 572	6.19
Capital Group	25 105 425	4.38
Lazard	19 567 654	3.42
T. Rowe Price	14 486 402	2.53
Vanguard	13 050 156	2.28
Namibian Government Institutions Pension Fund	12 415 193	2.17
BlackRock	9 866 160	1.72
JPMorgan	9 819 293	1.71
Government of Singapore Investment Corporation	9 706 668	1.69
Basson, JW	9 104 122	1.59
Fidelity	7 337 782	1.28
Le Roux, JF	7 060 585	1.23
Bank of New York Unrestricted Depository Receipts	6 790 071	1.19
Sanlam	6 502 943	1.14
<b>Totals</b>	<b>340 818 570</b>	<b>59.50</b>

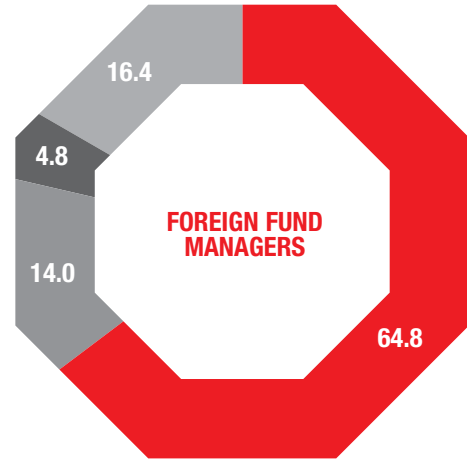


# SHAREHOLDERS

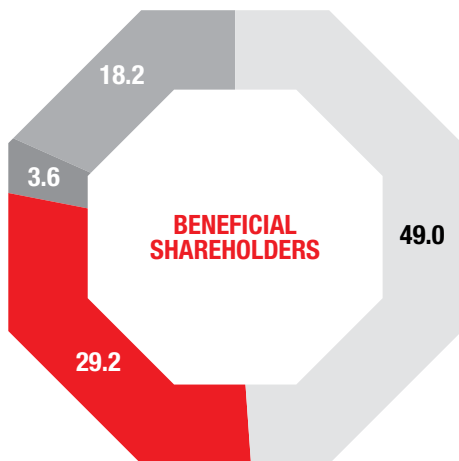
Country Classification



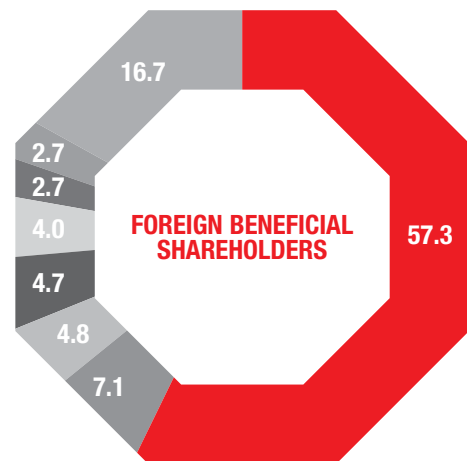
- 45.5% USA
- 29.8% SOUTH AFRICA
- 9.8% UK
- 3.4% SINGAPORE
- 11.5% OTHER



- 64.8% USA
- 14.0% UK
- 4.8% SINGAPORE
- 16.4% OTHER



- 49.0% SOUTH AFRICA
- 29.2% USA
- 3.6% UK
- 18.2% OTHER



- 57.3% USA
- 7.1% UK
- 4.8% NAMIBIA
- 4.7% SINGAPORE
- 4.0% LUXEMBOURG
- 2.7% AUSTRALIA
- 2.7% CANADA
- 16.7% OTHER

FINANCIAL STATEMENTS



